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A PLACE TO HELP YOUR MARKETING SKILLS

Three years ago this last December, a small group of us got together to form a local grain marketing club for our area. Now, three years later, **THE CENTRAL ILLINOIS MARKETING CLUB** is going strong and growing. With the help of **GSI and their awesome Burl A. Shuler Learning Center**, on Illinois Street in Assumption, we have been meeting the first Wednesday of each month to discuss current markets, strategies, insurance, costs, and just about anything that pertains to helping you do a better job of risk management. We have several brokerages involved who use their expertise to assist us with very important information to the current markets. As the only lender out there that has a Grain Marketing Line of Credit and co-sponsor of the club, we are able to assist in implementing the strategies discussed, while allowing the flexibility required in today's volatility. **DISCIPLINE** is a key element that we talk about a lot.

If you are one who is looking to learn more about the techniques and strategies required to harness today's market volatility, are one who has a reasonable understanding, but would like to have another source of information with a "push" to take action, or just need a place to discuss marketing with some of the best local experts available, why not join us. **THERE IS NO COST INVOLVED**. Just a simple phone call to us at 217-768-3933. We will add you to our email list for meeting notices.

DUE TO THE IMPORTANT JANUARY 10TH CROP REPORT, WE HAVE SCHEDULED THE NEXT MEETING FOR JANUARY 15TH, 2014, BEGINNING AT 6:30.

FARMING & FINANCING

A NEWSLETTER WRITTEN WITH YOUR FINANCIAL FUTURE IN MIND

JANUARY 2014

ARE YOU READY FOR THE POSSIBLE CHALLENGES AHEAD?

Farmers have proven once again that, after facing the drought of 2012 which resulted in ending stocks at very low levels and prices at very high levels, they are quick to rebound and grow a record corn crop and what appears to be an adequate bean crop. Unfortunately, it has also resulted in prices that may be unprofitable in the coming years. At one of our Marketing Club Meetings, one of the speakers made this statement, "YOUR RISK IS NOT IN **NOT** RAISING A CROP, because insurance and higher prices get you through it. **YOUR BIGGEST RISK IS IN RAISING A CROP AND THE LOWER PRICES THAT HAPPEN AS A RESULT!!** What are you to do???

My lifetime of experience in the grain industry has shown me that, year after year, you get opportunities at profitable grain prices. They may not happen very often, and may only be available for a very short time, sometimes happening long before even planting the crop, but you get the opportunities. Your ability to know what price levels you need to be profitable is one of the most important parts of farming today. In this volatile world of grain marketing, this is critical to your success. Your marketing plan is the heartbeat of your farming operation. THAT IS HOW WE CAN HELP!!

Since becoming a lender in 2008, I have helped develop a Grain Marketing Line of Credit that assists you in capturing the opportunities and maintaining the flexibility that this affords your operation. My years of grain experience and knowledge of the hedging tools available can assist you with getting comfortable with this. Those who are a part of our "marketing team" have been through the volatility and done very, very well. A solid, disciplined approach to grain marketing using a combination of the tools available, including hedging and options is creating a profitable consistency that any business requires. Farming is no different. We urge farmers to sit down with their operations, do their breakeven analysis, add in a reasonable return on investment and **KNOW WHAT LEVEL THE MARKET NEEDS TO GET TO**. When (and the key word here is WHEN) the market gets to that level, your disciplined approach pulls the trigger. Those who use our Grain Marketing Line of Credit will tell you that it then allows the flexibility you desire to obtain higher levels while defending their balance sheet from lower prices that you know will happen. WE ARE READY TO HELP. Give us a call today. Gerry Bertrand, Loan Officer, Ayars Branch

Twelve Steps to Cash Flow Budgeting

How much financing will your farm business require this year? When will money be needed and from where will it come? A little advance planning can help avoid short-term shortages of cash. One useful tool for planning the use of capital in the farm business is a cash flow budget.

A cash flow budget is an estimate of all cash receipts and all cash expenditures that are expected to occur during a certain time period. Estimates can be made monthly, bimonthly, or quarterly, and can include nonfarm income and expenditures as well as farm items. Cash flow budgeting looks only at money movement, though, not at net income or profitability.

A cash flow budget is a useful management tool because it:

A. Forces you to think through your farming plans for the year

B. Tests your farming plans, such as if you will produce enough income to meet all your cash needs

C. Projects how much operating credit you will need and when projects when loans can be repaid

D. Provides a guide against which you can compare your actual cash flows

E. Helps you communicate your farming plans and credit needs to your lender

Getting started

Developing a cash flow budget for the first time will not be easy. Following a step-by-step approach can make the task less difficult, though. There also are many personal computer programs available for developing cash flow budgets. Or, you may want to develop your own. In any case, the following steps can be applied.

1. Outline your tentative plans for livestock and crop production for the year.

2. Take an inventory of livestock on hand and crops in storage now. If a recent financial statement is available, information found under the current assets section can be used.

3. Estimate feed requirements for the proposed livestock program. Your own past feed records are also a good guide. Adjust feed requirements if livestock will complete only part of the feeding program during the budget year. It also is helpful to divide requirements for homegrown feedstuffs between the periods prior to harvest and following harvest.

4. Estimate feed available. List beginning inventories prior to harvest, and expected new crop production after harvest. Remember to exclude grain transferred to the landlord under a crop-share lease. Finally, estimate the quantity of feed purchases needed, if any, and the quantity available to sell. Once your feed supply and feed requirements are estimated, you may want to adjust the livestock program to fit them.

5. Now you are ready to start with the actual cash flow budget.

First estimate livestock sales, based on production and marketing plans.

A. Start with livestock on hand, then add livestock to be produced during the year. Exclude animals to be carried over to next year or held back for breeding stock.
B. Include sales of breeding stock that will be culled.
C. Include livestock product sales, such as for milk or wool.
D. Use your best estimate of selling prices based on outlook forecasts or marketing contracts.
E. Reflect expected seasonal price patterns when appropriate, rather than using the same price all year.
F. Stay on the conservative side. If your plan will work at conservative prices, it also will work at better prices.
G. Some producers prepare budgets at two or three price levels for the major products they sell. This helps them identify the amount of price risk they face.

6. Plan sales of non-feed crops and excess feed.

A. Consider crops in inventory at the beginning of the year as well as crops to be harvested during the year. Plan to carry over grain for feed for next year plus other crops normally sold in the following year.

B. Plan timing of sales according to your normal marketing strategy.

C. Follow the same guidelines as in step 5 for estimating crop prices. Look at outlook forecasts, consider seasonal price patterns, and use conservative price estimates.

D. Multiply quantities to sell by anticipated prices, and carry the totals to the budget form.

E. After the initial cash flow budget is completed, you may want to revise your marketing plans to meet capital needs throughout the year.

7. Estimate income from other sources, including:

A. USDA farm payments
B. Custom machine work income
C. Income from off-farm work, rental property, or other business activities
D. Interest, dividends, patronage refunds, etc.

(Last year's additional cash income listed on your income tax return is a useful guide.)

8. Project crop expenses and other farm operating expenditures.

A. Last year's expenditures are a good guide. Adjust for changes in price levels.

B. If cropping plans will be different this year, detailed field-by-field production plans or field maps can be used to estimate expenses.

C. Expenses that are determined by contract, agreement, or law can be estimated directly from contract terms, unless rates are expected to change. These include property taxes, property and liability insurance premiums, and fixed cash rents.

D. Expenses should be spaced through the year based on your best judgment. Some will fall mainly during certain sea sons, such as machine hire, part-time labor, and crop expenses.

Remember to place these expenses during the period of payment, not the period of use. Some expenses will be spread through the year but will have definite seasonal peaks. Fuel, machinery and equipment repair, and utilities are examples. Other expenses may be spaced evenly through the year, such as vehicle operating expenses, livestock health and supplies, and purchased feed.

9. Consider capital purchases such as machinery, equipment, land, or additional breeding livestock. Major machinery expenses such as a tractor overhaul also can be included here, as well as construction or improvement of buildings.

You may want to complete the rest of the cash flow budget first to see if major capital expenditures will be feasible this year. If a portion of the item will be financed by borrowing, then include the anticipated loan amount in the "Financing" section.

10. Summarize debt repayment. Much of this information can be taken from your most recent net worth statement. Include only those debts that you have already acquired at the beginning of the budgeting period. Calculate the interest that will be due at the time the payment will be made. Remember, the net worth statement may show only interest accrued up to the date of the statement.

11. Estimate nonfarm expenditures.

A. Adjust last year's living expenses for changes in family circumstances and inflation. Remember to allow for possible purchases of vehicles, furniture, appliances, or major repairs, and contributions to retirement accounts.
B. A tax estimate made at the end of the year for tax management is helpful for projecting income tax and Social Security payments to be made for last year's income. Your estimate can be revised when your actual tax returns have been completed.

12. Sum total cash inflows and total cash outflows.

A. Add total projected cash inflows for the year and for each period. Add the total inflows for each period to check that the equal the total projected inflows for the year.
B. Add total projected cash outflows for the year and for each period. Add the total outflows for each period to check that they equal the total projected outflows for the year.
C. Subtract total cash outflows from total cash inflows to determine the net cash flow for each period. Add the net cash flows for each period to check that they equal the total net cash flow for the year.

If the estimated net cash flows for the entire year and for each period are all positive, you have a feasible cash flow plan. If the net cash flows for some periods are negative, some adjustments may need to be made.

Shorter term adjustments can be made when projected net cash flow is positive for the whole year but negative for certain months. These include:
A. Shift the timing of some sales.
B. Shift the timing of some expenditures.
C. Increase short-term borrowing in periods with negative cash flow, and project repayment in periods with positive cash flow.
Remember to add interest charges to payments.

Monitoring Cash Flows

Review your cash flow budget from time to time during the year. Prices and costs may differ from your estimates, or production plans may change. Monthly bank statements and canceled checks are a good source of cash flow information against which your budget can be compared. This will help you anticipate changes in your needs for cash and credit later in the year. You may even need to prepare a revised budget for the remainder of the year.

Developing a cash flow budget for the first time will not be easy. Close communication with your lender is important. By planning where you are going financially, you can increase your chances of arriving there safely. Cash flow budgeting is an essential part of sound financial management.