

# The Difference in Agriculture

NEWS & INFORMATION FROM THE FIRST TRUST & SAVINGS BANK

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## Managers Take

This spring started with some of the best conditions I've ever seen. The soil was very mellow and dry, both in conventional and no-till practices, allowing for early planting windows. There were a few delays, rain and cold, but there was nothing stopping us going full throttle. Stands were excellent, and emergence was ideal. Now with planting and sidedressing all wrapped up, we all begin looking to the heavens for rain.

Yet it hasn't come, well at least not enough to reverse our current drought. So, in light of our circumstances, perhaps we try a Native American ritual... the rain turtle.

I learned of this ritual while in the Boy Scouts, studying Native American ceremonies, and figured what better time for everyone to try for themselves. Start with a bare spot of dry soil (fairly common) and find a nice stick. Use the stick to draw a shell, head, and four legs, with the head facing west. Then drive the stick into the shell, and walk in a circle around the turtle clockwise 3 times, repeating a chant of your desire for rain.

So will this work? Maybe, but if it brings rain, I, for one won't complain.

*Scott Zumwalt*  
Agri-Business Specialist



## Ag conditions mixed across Federal Reserve districts

By Tom C. Doran AGRINEWS PUBLICATIONS

CHICAGO — The outlook for farm income fell in most Corn Belt districts on lower commodity prices and increased costs, according to a survey of Federal Reserve districts. Results of the survey were published in the Federal Reserve's Beige Book on May 31. The survey report was prepared at the Federal Reserve Bank of Chicago based on information collected on or before May 22. Here are the agricultural-related comments from districts in the Corn Belt.

### CHICAGO

Expectations for Seventh Federal Reserve District's farm incomes in 2023 fell some as prices for key products moved lower. Corn and soybean prices decreased, as rapid fieldwork and planting progress heightened

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expectations for a large harvest. Soft red wheat prices remained weak, but hard wheat prices rose due to drought affecting much of the U.S. wheat crop and uncertainty surrounding another extension of the agreement allowing exports out of Ukraine. There were lower prices for eggs and dairy products, especially cheese. Hog prices increased from a low level and cattle prices moved higher. "In light of higher interest rates, contacts expected farmers to conserve working capital to minimize the need to take out farm operating loans. There were reports of slower farm machinery sales, but also shortages of some types of equipment," the survey summary stated. Prices for farmland were higher again as demand remained solid and inventories of farms for sale were limited. The Seventh District of Chicago includes the northern two-thirds of Illinois and Indiana, all of Iowa, the southern two-thirds of Wisconsin and Michigan's Lower Peninsula.

## **ST. LOUIS**

Overall conditions in the Eighth Federal Reserve District have remained unchanged, but the outlook has weakened slightly since our previous report. Most agriculture contacts surveyed reported that their costs, including labor, have increased, which has contributed to the slightly worsening outlook. The percentage of row crops planted has increased as expected since the previous reporting period and is up slightly from this time in 2022. The progress of acres planted is mixed across the district. Some states, such as Missouri and Illinois, have improved strongly over last year, and the other district states have fared slightly to materially worse. The St. Louis Federal Reserve District includes the southern parts of Illinois and Indiana and eastern half of Missouri, as well as parts of Tennessee, Arkansas, Kentucky and Mississippi.

## **MINNEAPOLIS**

District agricultural conditions were solid heading into planting season. About half of respondents to a survey of agricultural credit conditions reported that farm incomes increased in the first quarter from a year earlier. "Lenders noted improvements in liquidity and in the financial condition of producers, but they were concerned about commodity price volatility and rising interest rates," the report stated. Heavy snow over the winter and persistent coldweather will significantly delay spring planting in some areas, contacts reported. The Minneapolis-based district includes all of Minnesota, the Dakotas and Montana, the northern one-third of Wisconsin and Michigan's Upper Peninsula.

## **KANSAS CITY**

Conditions in the 10th Federal Reserve District agricultural economy remained strong through early May, but showed signs of moderating. Corn and soybean prices declined slightly since April and were moderately lower than a year ago. Prices moved down recently based on reports of ideal planting conditions throughout most states and early projections that production could hit record levels due to historically strong yields. Wheat prices increased slightly since April, but poor yields caused by drought could limit revenues, particularly in Kansas and Oklahoma.

Profits among cattle producers continued to be pressured by high feed costs and drought that damaged pasture conditions throughout the region. The Kansas City district includes the western part of Missouri, Kansas, Nebraska, Oklahoma, Wyoming, Colorado and northern New Mexico.

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# Drought expands in Illinois; crops show symptoms

By DANIEL GRANT FarmWeek Senior Commodities Editor, Jun 10, 2023

Worsening dryness and drought conditions have expanded across the state.

Most of Illinois, except for portions of southwest Sangamon and Christian, northeast Macoupin and western Shelby counties, was rated abnormally dry or in moderate drought, according to the U.S. Drought Monitor released June 6, prior to forecasted rain chances June 10-11.

The only other exception on the monitor — and it's not a good one — was in portions of Adams, Hancock and Pike counties in western Illinois where the drought rating was at the "severe" level for the second straight week as of the same date.

"The combination of drier-than-normal conditions in April and May and warmer-than-normal weather throughout much of the past three weeks has taken a significant toll on soil moisture and streamflow," said Trent Ford, state climatologist with the Illinois State Water Survey.

The preliminary statewide temperature in May averaged 63.7 degrees, 0.4 degrees above the 1991-2020 average. Precipitation last month averaged 2.71 inches, 2.06 inches below normal.

Most of the state ended the month of May drier than normal, including Chicago, which received only 0.71 inches of precipitation, making it the fourth-driest May on record there.

Elsewhere, Quincy received only 3.01 inches of precipitation from April 1 to May 31, which was the third-lowest total there for that period, Ford noted.

Topsoil moisture ratings plummeted to 74% short to very short statewide as of June 6. The portion of crops rated good to excellent also slipped significantly last week to 50% for corn (down 19 points from the previous week) and 51% for soybeans (down 12 points).

Nearly the entire wheat crop (98%) headed as of June 6, which was 4 points ahead of average.

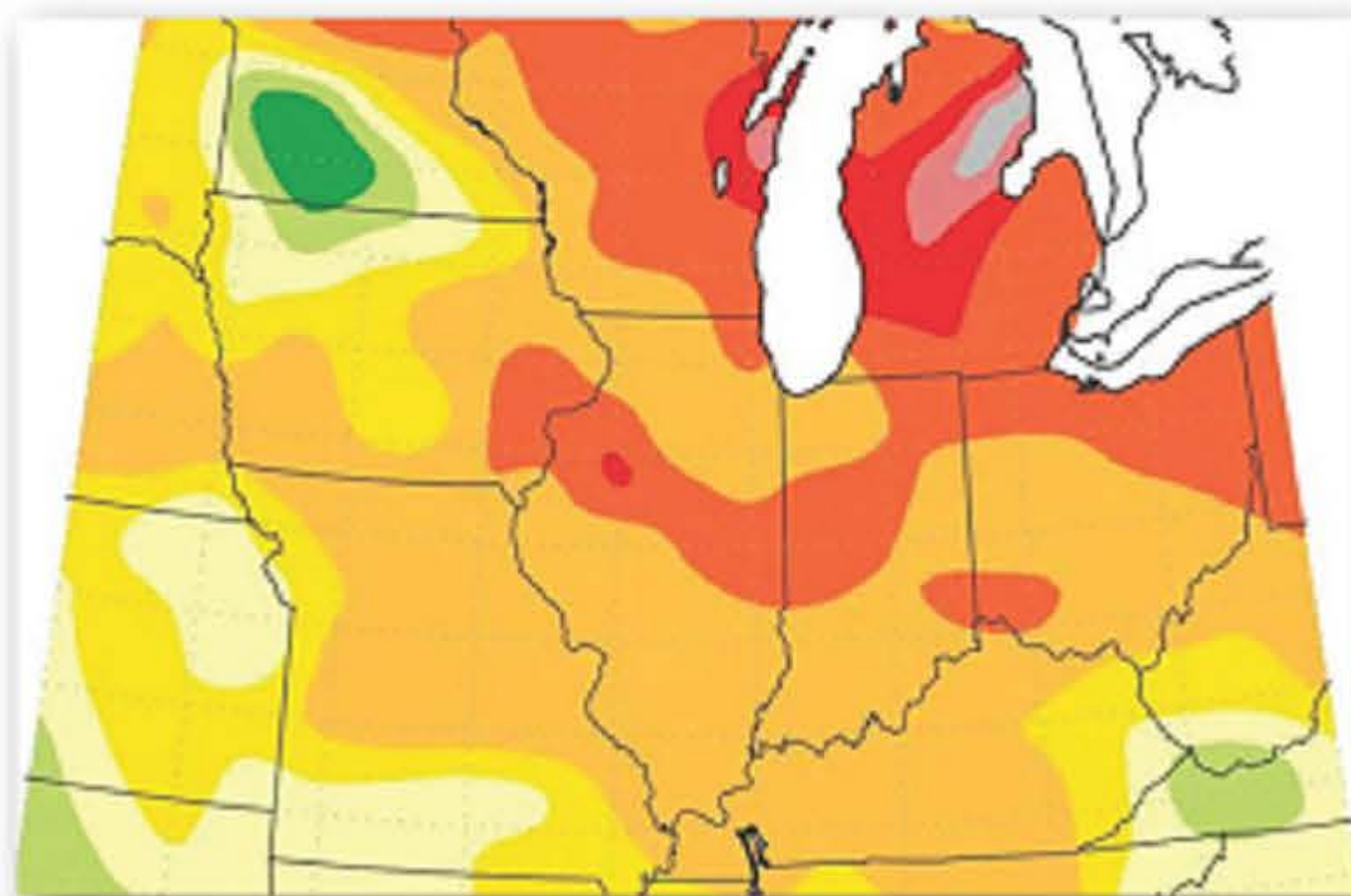
Leon McClarren, Franklin County Farm Bureau president, said some wheat moisture tested 38% to 40% last week. He may begin harvest the second half of this week, depending on the weather.

There was a chance of some possible storms in the forecast as of Friday. But, McClarren didn't hesitate when asked if he'd rather have the moisture now or a quick wheat harvest.

"The wheat harvest takes a week to 10 days. The ideal thing would be to get a rain now, then get a window for harvest," he told FarmWeek. "We're dry down here."

"The (corn and soybean) crops are hanging in OK, but some crops are still going in and probably won't emerge until we get rain."

Chad Lee, University of Kentucky professor of grain crops, said a lack of water before the V12 growth stage in



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corn usually results in minimal yield losses, but only if adequate moisture occurs at V12 and beyond.

Signs and symptoms of drought stress in corn include the following, according to Lee:

- Leaf rolling. Corn leaves roll during the heat of the day to conserve moisture.
- Potassium deficiency. The corn plant needs water to take up potassium and other nutrients, so a deficiency of those is a common indicator of drought stress on young plants.
- Compaction becomes evident. Seed furrow sidewall compaction and subsurface tillage compaction become more obvious in dry soils.
- “Floppy” corn syndrome. The dry weather and hot temperatures can cause roots from one or more nodes to desiccate or dry out and die.
- Loss of row or kernels. A lack of water from V7 to V12 could reduce the total biomass of the stem and leaves. Water stress starts affecting row number and the kernel number closer to V12.
- Lack of herbicide activity. Most soil residual herbicides need rainfall to activate.
- Less disease risk. On the bright side, a lack of water means foliar disease pressure is extremely low right now.

## **Why everyone needs an estate plan**

**Legal Matters: If you die without a will or trust, intestacy laws will determine how your assets are distributed.**

**by Troy Schneider, June 7, 2023**

Many people, including farmers and their families, avoid putting together an estate plan. But everyone — whether young or old, rich or poor, married or single — should have an estate plan. As Benjamin Franklin said, “The only certainties in life are death and taxes.”

The following are some of the questions people ask while trying to avoid completing an estate plan:

**Won't my spouse get my property anyway?** If you die without a will or trust, the intestacy laws will determine how your assets are distributed upon your death. In a nutshell, the intestacy laws are the default “will” contained in the Wisconsin statutes. If you have only been married once and only have children from that marriage, the intestacy laws provide that all your assets will pass to your spouse.

The disadvantage of relying solely upon the intestacy laws is the possibility of having to transfer assets upon death using probate. Any assets that do not have the ability to have a beneficiary listed (like cattle or feed, for example), or assets for which you have failed to list a beneficiary designation will need to be transferred using probate proceedings. The disadvantages of the probate process are that it takes time and costs money. All assets passing through probate are subject to a 0.2% inventory fee. In addition, the assets will be listed in a court document called an inventory and made a public record.

However, spouses can avoid probate on the first spouse's death by using a marital property agreement. In this agreement, you may choose to classify property as “survivorship marital property,” which assures that all property passes to the surviving spouse without the need for probate.



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***I am young and don't have many assets. Why do I need an estate plan?*** Anyone who is over age 18 should have powers of attorney in place, even if they own a limited number of assets. In Wisconsin, there are two types of powers of attorney: health care and financial.

A health care power of attorney gives your designated agent the ability to make health care decisions on your behalf when you are unable to do so. The health care power of attorney document can also contain (either within the document itself or as a separate document) a "living will" or "advance directive," which will address life-prolonging medical treatment. If you do not have a health care power of attorney and do not have the ability to make health care decisions for yourself, then your family would need to go to court to have a "guardian of the person" appointed, which requires both time and expense.

Likewise, a financial power of attorney gives your designated agent the ability to handle financial affairs on your behalf when you are unable to do so. If you do not have a financial power of attorney, then your family would need to go to court to have a "guardian of the estate" appointed, which again requires both time and expense.

***Can't my kids just figure it out?*** There are a number of reasons why everyone, especially farmers, should have an estate plan. First, there are essentially three methods to transfer assets upon death: intestacy, will or living revocable trust. It is important that you and your advisers choose the appropriate vehicle, rather than the courts, to avoid probate or minimize taxes.

Second, for farmers, creating an estate plan is the time for you to start discussing the important questions regarding what share of your assets you want to go to the farm children vs. the nonfarm children. The estate plan can give the entire family peace of mind to know what is going to happen, why and how.

***Doesn't estate planning cost a lot?*** Estate planning, by its nature, often involves a number of documents. However, these documents are forms that are updated based upon changes in the law and the experiences of the attorney implementing the forms. That said, estate planning does not need to be expensive if a trustworthy attorney is using the appropriate documents for the appropriate circumstances.

Estate planning has many components, but it does not need to be a complicated process. Getting started is the key. Find an attorney to work with who has a good reputation and whom you trust.

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## **Contingency Planning with Cash Flow Shortages**

***Langemeier, M. "Contingency Planning with Cash Flow Shortages." farmdoc daily (13): 101, Department of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, June 2, 2023***

A contingency plan is a course of action designed to help a business determine how to respond to possible future events. Contingency plans are often referred to as "Plan B". One of the most common contingency plans used by a business, particularly a small business, relates to how to respond to the departure or absence of key personnel. Contingency plans related to how to respond to changes in projected cash flows are also important. Given the expected drop in crop prices this fall, it would be prudent for a farm to examine the sensitivity of their cash flow and repayment capacity to changes in crop prices. This article illustrates the use of contingency plans for a case farm in southwest Indiana.

### **Sources and Uses of Funds**

In addition to providing a mechanism for reporting how a farm's performance during an accounting period influenced and was influenced by major funding activities, a sources and uses of funds statement is useful when

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developing contingency plans. Specifically, this statement can be used to examine whether the farm has enough cash flow from the farm to repay debt and purchase assets. An example of a sources and uses of funds statement using historical data is illustrated and described by Langemeier (2019).

The five primary categories of a sources and uses of funds statement are beginning cash balances, cash flows from operating activities, cash flows from investing activities, cash flows from financing activities, and ending cash balances. Cash flows from operating activities are computed by subtracting cash farm expenses, owner withdrawals (e.g., family living withdrawals), and income and self-employment taxes from cash farm receipts. Cash flows from investing activities are computed by subtracting capital asset purchases from capital asset sales. If a farm is planning on purchasing assets, cash flows from investing activities will be negative. In other words, cash flows from operating activities or from financing activities will need to be used to help pay for the assets. Cash flows from financing activities are computed by subtracting principal payments from loans received during the year. If principal payments are higher than loan receipts, cash flows from financing activities are negative. Conversely, if principal payments are smaller than loan receipts, cash flows are positive.

Financial metrics and sources and uses of funds for a case farm in southwest Indiana will be examined below using a pro-forma spreadsheet that is available on the Center for Commercial Agriculture web site. To use the pro-forma spreadsheet the following information is needed: current assets, current liabilities, crop acres, crop income (bushels in storage, crop prices, and crop yields), other income (e.g., beef income), crop and livestock expenses per acre or head, assets sales and purchases, and nonfarm income and expenses (e.g., family living expenses). When conducting a pro-forma analysis, it is common to use more than one scenario. In this article, we will use three crop price scenarios for sales this fall and ending inventories. The price scenarios were developed using historical basis and futures prices. For futures prices, the 25th percentile, the 50th percentile, and the 75th percentile for corn and soybeans were obtained in late May from the *iFarm Price Distribution Tool*. Cash prices were then computed by adding historical basis to futures prices.

### **Case Farm Example**

Let's use the cash flow definitions above to look at an example. The case farm is located in southwest Indiana and has crop acres and a small beef cowherd. Gross revenue and net farm income in 2022 were \$856,737 and \$225,148, respectively. The operating profit margin in 2022 for the case farm was 24.6 percent. The farm has solid liquidity and solvency positions. Relatively strong cash flows in 2022 enabled the farm to purchase approximately \$150,000 worth of machinery. The farm is planning on purchasing at least some machinery and equipment in 2023 if the capital debt repayment margin is positive.

There are at least four different sources of cash that can be used to purchase machinery and equipment. Having said that, it is likely that a combination of these sources would be utilized. First, the farm could draw down cash balances. This would reduce liquidity, which may not be prudent. Second, the farm could use cash flows from operating activities, assuming that this number is positive. Third, the farm could sell other assets to help make the purchase. Fourth, the farm could borrow money to help pay for the asset. Where does contingency plans come in? If cash flow becomes relatively tight as the year progresses, cash flows from operating activities may be relatively small. In this instance, the farm will likely not purchase additional machinery in 2023.

Table 1 presents crop prices and financial metrics for each crop price scenario. The only difference between the scenarios are the expected crop prices for fall sales and ending inventories. Net farm income, the operating profit margin ratio, and the capital debt repayment margin were negative for all three scenarios. The negative capital debt repayment margin indicates that this farm does not have enough cash flow from operating and financing activities to fully cover principal and interest payments on noncurrent debt. Working capital per crop acre

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declined \$180 for the 25th percentile, \$114 for the 50th percentile, and \$48 for the 75th percentile. Simply put, crop prices under all three scenarios are not high enough for the farm to breakeven. Given the low net farm income under each crop price scenario, the case farm will likely defer machinery and equipment purchases to a later year. Depreciation for this farm is approximately \$65,000. Thus, if the farm does not purchase any machinery in 2023, it will not be able to replace the value of machinery that was depreciated during the year. Long-term, it will need to do so.

**Table 1. Crop Prices and Financial Metrics for Case Farm Scenarios**

	Percentile		
	25%	50%	75%
Corn Price	4.20	4.85	5.60
Soybean Price	10.10	11.05	12.05
Net Farm Income	-\$126,536	-\$77,099	-\$22,099
Profit Margin Ratio	-22.3%	-12.4%	-3.0%
Working Capital per Crop Acre Beginning Balance = \$1,038	\$858	\$924	\$990
Capital Debt Repayment Margin	-\$135,028	-\$85,591	-\$36,272

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The primary categories for projected sources and uses of funds are illustrated in Table 2. The net cash provided by investing activities excludes potential asset sales and purchases. The net cash provided by financing activities was negative reflecting the payment of term debt during the year. Net cash from operating activities was negative for the low crop price scenario, and was \$11,534 and \$37,727 for the medium price and high crop price scenarios, respectively. Note that depreciation, because it is a non-cash expense, is not subtracted from cash farm receipts when

computing net cash provided by operating activities. As noted above, depreciation is projected to be approximately \$65,000 in 2023. Thus, to a large extent this farm will be living off of depreciation in 2023. Net cash provided by operating activities would have been much lower without the relatively strong crop prices experienced for the sale of the remaining crop inventories from the 2022 crop in early 2023. The ending cash balance was lower than the beginning cash balance for the low price and medium price scenarios. For the high price scenario, the ending cash balance was approximately \$15,750 higher than the beginning cash balance.

### Summary and Conclusions

This article briefly discussed the use of contingency planning to project cash flow and repayment capacity. As cash flows from the farm operation become tighter, it is necessary to find other funds to help pay for asset purchases or delay asset purchases, and to repay debt. A case farm was used to illustrate how contingency plans could be used. Unless crop price prospects improve it would be difficult for the case farm to purchase assets, such as machinery and equipment, later this year. Working capital will be drawn to meet term debt obligations under each of the three crop price scenarios examined even if the farm does not purchase machinery and equipment in 2023. Given the potential volatility of crop prices this summer, it would be prudent to periodically update cash flow projections.

**Table 2. Sources and Uses of Funds for Case Farm Scenarios**

	Percentile		
	25%	50%	75%
Beginning Cash Balances (1)	\$458,342	\$458,342	\$458,342
Net Cash Provided by Operating Activities (2)	-\$17,342	\$11,534	\$37,727
Net Cash Provided by Investing Activities (3)	\$0	\$0	\$0
Net Cash Provided by Financing Activities (4)	-\$21,984	-\$21,984	-\$21,984
Ending Cash Balances (5)	\$419,016	\$447,891	\$474,085
Unlocated Funds (1+2+3+4-5)	\$0	\$0	\$0

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