



FLANAGAN
State Bank

AG NEWSLETTER

MANAGING YOUR PRICE RISK WHILE STAYING IN THE MARKET



It seems today, that most have a bias that the market is well supported and poised for even higher prices. While that is certainly a possibility, it is not a given. To be honest, some of the same people that think the market cannot go lower, are likely the same people that said the market could not go higher 6 to 9 months ago. The fact of the matter is, there isn't anyone out there that knows where the market will be several months in the future.

To prove that point, let's look at corn and soybean ending stock estimates since last May. Back in May of 2020, U.S. corn ending stocks for this year were pegged at 3.3 billion. Now, we are only looking at 1.5 billion, with some thinking it is only 1.2 billion. World corn ending stocks were estimated to be 339.5 million metric tons (mmt), and now they are pegged at 287.7mmt. Those are significant changes that have come about due to lower production, and higher demand, compared to what was expected. For soybeans, U.S. ending stocks were pegged at 405 million back in May of 2020, and now we are at 120 million. Again, big changes in a relatively short amount of time.

(cont. pg. 2)

APR 2021

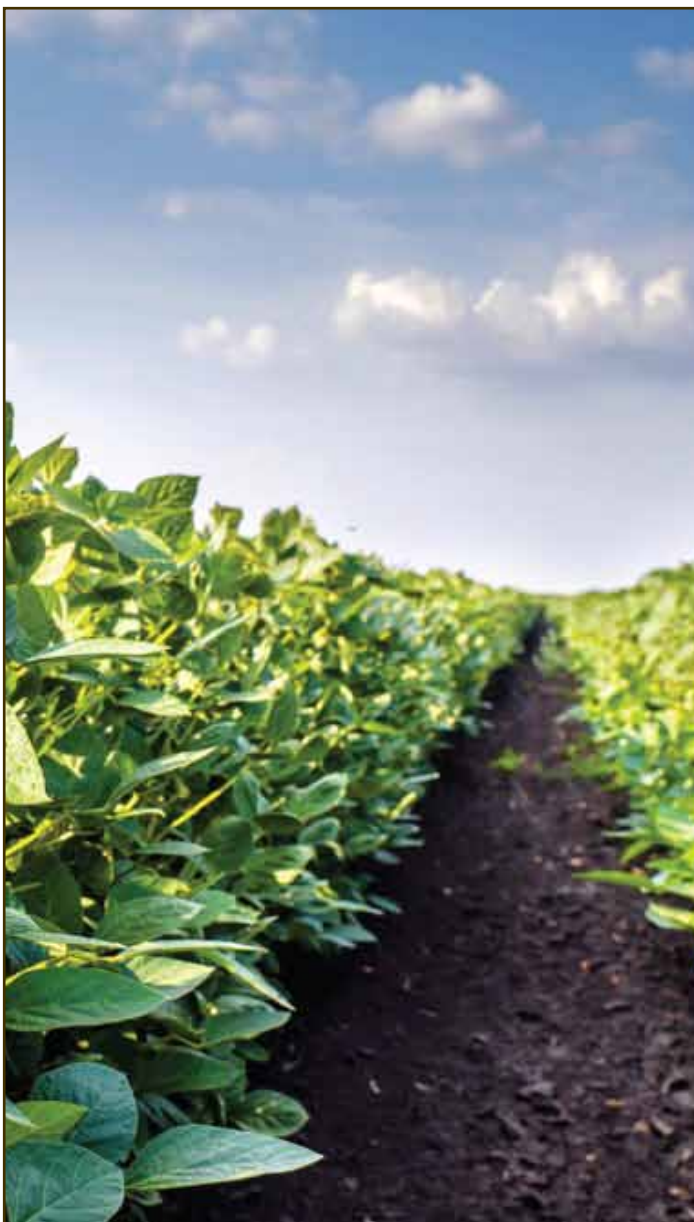
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FSB LOCATIONS

301 W. Falcon, Flanagan
403 State, Benson
2401 E. Washington,
Bloomington
111 N. Fayette, El Paso
500 S. Persimmon, Le Roy
208 E. Gridley, Gridley

As we go forward, there are so many things that can happen to change these projections, not only for last years crop, but also for this coming 2021 crop. Demand is constantly changing, and we are likely changing demand with these higher prices already. We do not know yet what the South American crop will be. We do not know how many acres of each crop we will grow in the U.S., nor do we know how big or small production will be. Not only do we have the U.S. crop to think about, but Europe, Ukraine, Russia, and China, will all grow crops this year to affect the world supply and demand outlook.



From a marketing perspective, you want to be in the market in case we do go higher. With lower ending stocks figures today, it would seem we cannot have a poor crop this coming year. However, that does not mean we should sit on our hands and do nothing while waiting for higher prices. Those higher prices are not a given, and even if we do go higher, we know we can reverse and go lower very quickly, and likely much more quickly than we will react to.

The question then becomes “Do you want control of your operation, or do you want the market to control you”? If we freeze up and do nothing, we are at the mercy of the market and the market then is in control. That can turn out fine if all the market does is go higher. However, we know that is not what typically happens. The market can go up, and then come racing back down. If you are waiting for higher prices, you can still protect your balance sheet by utilizing options to fit what you are doing. If you make sales, look at call options in case the market continues higher. The call option will gain in value if we go higher, adding to your sale. On what you are not selling, look at put options to establish a floor under you. Put options gain in value if the market drops, so if the market falls back down, the put will gain in value to help add to a sale you have to make yet. If the market doesn’t fall, but continues higher, you still have the grain to sell, so you are benefiting. These all can provide a win-win for you because you are now in control of profitability for your operation. You have a control of potential market loss, and you are in the market if we continue higher. All of a sudden market volatility is opportunity for you, rather than a potential problem.



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BREAK EVEN ANALYSIS

Customer's Name: Farmer Frank

Date: 3/15/21

	CORN	SOYBEANS	Total Acres
Full Share Acres	1	1	2
5 year Avg. Yield	220	60	

Expenses	TOTAL EXPENSE	CORN		SOYBEANS	
		Total	Per Acre	Total	Per Acre
Labor	\$ 52.00	\$ 32.00	\$ 32.00	\$ 20.00	\$ 20.00
Repairs	\$ 65.00	\$ 38.00	\$ 38.00	\$ 27.00	\$ 27.00
Rescue	\$ 60.00	\$ 30.00	\$ 30.00	\$ 30.00	\$ 30.00
Cash Rent	\$ -	\$ -	\$ -	\$ -	\$ -
Seed	\$ 212.00	\$ 140.00	\$ 140.00	\$ 72.00	\$ 72.00
Fertilizer	\$ 215.00	\$ 150.00	\$ 150.00	\$ 65.00	\$ 65.00
Chemicals	\$ 145.00	\$ 70.00	\$ 70.00	\$ 75.00	\$ 75.00
Custom Work	\$ 28.00	\$ 14.00	\$ 14.00	\$ 14.00	\$ 14.00
Fuel	\$ 45.00	\$ 27.00	\$ 27.00	\$ 18.00	\$ 18.00
Taxes	\$ 30.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00
Insurance	\$ 36.00	\$ 20.00	\$ 20.00	\$ 16.00	\$ 16.00
Utilities	\$ 11.00	\$ 6.00	\$ 6.00	\$ 5.00	\$ 5.00
Supplies	\$ -	\$ -	\$ -	\$ -	\$ -
Drying	\$ 29.00	\$ 25.00	\$ 25.00	\$ 4.00	\$ 4.00
Storage	\$ 14.00	\$ 9.00	\$ 9.00	\$ 5.00	\$ 5.00
Lime	\$ 15.00	\$ 10.00	\$ 10.00	\$ 5.00	\$ 5.00
Light Truck	\$ 10.00	\$ 5.00	\$ 5.00	\$ 5.00	\$ 5.00
Prof. Services	\$ 10.00	\$ 6.00	\$ 6.00	\$ 4.00	\$ 4.00
Other	\$ 16.00	\$ 9.00	\$ 9.00	\$ 7.00	\$ 7.00
Interest	\$ 40.00	\$ 25.00	\$ 25.00	\$ 15.00	\$ 15.00
Total	\$ 1,033.00	\$ 631.00	\$ 631.00	\$ 402.00	\$ 402.00

Operating Cost per Bushel	per Acre	\$ 2.87	\$ 6.70
Living	\$ 120.00	\$ 60.00	\$ 0.27
Taxes	\$ 64.00	\$ 32.00	\$ 0.15
Term Debt	\$ 350.00	\$ 175.00	\$ 0.80

Break Even Price \$ 4.08 per bu. \$ 11.15 per bu.

Additional Income:

Gov'n't Payments	\$ -	\$ -	\$ -	\$ -
Custom Work	\$ -		\$ -	\$ -
Specialty Corn	\$ -		\$ -	
Specialty S/B	\$ -			\$ -
Off-Farm Income	\$ -		\$ -	\$ -
Other	\$ -		\$ -	\$ -

Adj Breakeven Price \$ 4.08 per bu. \$ 11.15 per bu.



HOW TO FILL OUT A BALANCE SHEET FOR YOUR AG BANKER

A balance sheet is an important financial document for business owners. The balance sheet shows what the business has as far as assets (items the farmer owns), liabilities (items the farmer still owes money on), and net worth as of a point in time (as of a certain date). In agriculture, we break down our assets and liabilities into 3 sections: current, intermediate, and long-term. Assets will always be on the left and liabilities on the right with the most liquid items (cash, grain on hand) on top, the most illiquid items in the long-term section (farmland, residence, loans secured by mortgages on real estate) on the bottom, and intermediate items such as machinery, retirement accounts, and machinery notes in the middle.

At Flanagan State Bank and at most banks, it is required to do an annual balance sheet. Based on a business's needs, doing a balance sheet quarterly might also be necessary. It is a good practice to do the balance sheet at roughly the same time each year. For farming operations, it is good to compare balance sheets from the same time year after year so that trends can be seen. For example, a farmer's balance sheet in the summer will look very different than a balance sheet at the end of the year after harvest. It is best to pick a date such as December 31st and compile a balance sheet on or around that date every year.

As stated before, there are two sides to the balance sheet: Assets and Liabilities. The Assets can range from cash in the bank, grain in storage, cars, ATVs, Tractors, Combines, Household items, tools, buildings, personal residence, farm ground, etc. While Liabilities can range from Accounts payable (Seed, Fertilizer, Chemicals, Cash Rent), Operating Loans, Machinery Loans, House Loans, Farm Ground Loans, etc.

- **Current Assets/Liabilities** – Items that can be liquidated and paid down within the next 12 months or are owed within 12 months. Typically, this is cash, savings, checking, crops on hand, contracted crops yet to be delivered, prepaid expenses, and accounts receivable. Current liabilities include accounts payable, accrued interest, taxes due, and payments of loans due within 12 months.

- **Intermediate Assets/Liabilities** – Items that have the average “lifespan” of 1 to 7 years. Examples of intermediate assets are machinery, equipment, personal vehicles, cash value life insurance, breeding livestock, and retirement accounts. Intermediate liabilities are debts owed on machinery, equipment, vehicles, student loans, and credit cards.

- **Long-Term Assets/Liabilities** – Items that have a “lifespan” over 7 years. These are typically related to Real Estate. Long-Term Assets are farmland owned, personal residence, other real estate owned, and buildings. Long-Term Liabilities are frequently the real estate mortgages owed.



An in-depth balance sheet can help the loan officer and bank see what each operation is about. You can see how leveraged the farmer is by looking at a balance sheet and it will also help you figure out the repayment capacity needed to make it cash flow. There are 3 main things that we at Flanagan State Bank look at when we get a prospective farmer's balance sheets or are analyzing a current customer's financial position.

- **Net worth = Total Assets – Total Liabilities**

- Net worth (equity) is an operation's assets minus all liabilities against an operation. A higher net worth means that an operation owns a higher amount of its assets that are free and clear of debt.

- **Working Cash = Current Assets – Current Liabilities**

- Working cash is a measurement of liquidity in an operation. Every operation should have enough liquid assets (cash, grain in storage, prepaid expenses, market livestock) to cover a year's worth of debt obligations (accounts payable, principal & interest payments, taxes). Negative working cash means that an operation does not have enough liquidity to meet all its debt owed for the next year without selling another asset such as machinery.

- **Current Ratio = Current Assets ÷ Current Liabilities**

- Excellent: 1.50 or higher Average: 1.25 – 1.50

This ratio indicates how much of current assets can cover current liabilities. In other words, how much of the most liquid assets of a business can cover liabilities owed within the next 12 months. A ratio less than 1 means that an operation does not have enough liquidity to cover its debt owed within the next 12 months. A ratio of more than 1 means that an operation has enough money to cover its debt owed for the next 12 months and has some liquidity left over. A ratio that is 0 means that an operation is neither making money nor losing money, it is breaking even.

- **Debt to Asset Ratio = Total Debt ÷ Total Assets**

- Excellent 25% or less, Average 26% - 50%

This ratio is a measurement of solvency in an operation. It tells you what percentage of an operation's assets is borrowed. If you have a high ratio then that means a lot of an operation's assets are tied up with creditors and the higher the interest risk. A ratio of more than 1 indicates that an operation has more debts than assets to cover those debts should they sell the operation. Generally, the lower the ratio the better.

These numbers and ratios are very useful for your banker to assess your operation's current situation. The “standard” numbers and ratios vary from bank to bank, but for the most part, all lenders and banks are in the same “ball-park” listed below.

**If you need help filing a Balance Sheet out, please feel free to reach out and we can get you an empty balance sheet to fill out.*

(cont. pg 5)



EMPTY BALANCE SHEET

- ☐ Individual
☐ Partnership
☐ Corporation

Balance Sheet (Agricultural)

Phone (cell): _____

Name: _____

Address: _____

To: *Flanagan State Bank*

Statement Date: _____

Current Assets		Current Liabilities(due within 12 months)	
Cash	\$ -	Accounts Payable (to whom, maturity, purpose)	
Savings and CDs	\$ -		\$ -
Crops or Feed For Sale (elevators & bins)	\$ -		\$ -
	\$ -		\$ -
	\$ -	Current Portion IT Debt (to whom, maturity, purpose)	
	\$ -		\$ -
	\$ -		\$ -
	\$ -		\$ -
Priced/Contracted Grain	\$ -	Current Portion LT Debt (to whom, maturity, purpose)	
Acct. Recv. owed to you	\$ -		\$ -
Prepaid Expenses	\$ -	Accrued Interest	\$ -
Cash Invested on growing crops	\$ -	Notes Payable	\$ -
Government Payments	\$ -	Credit Cards	\$ -
	\$ -	Taxes-Income & Real Estate	\$ -
Marketable Stocks and Securities	\$ -	Cash Rent Due for Growing Crop	\$ -
Other Current Assets	\$ -	Other Current Liabilities	\$ -
Total-Current Assets	\$ -	Total-Current Liabilities	\$ -
Intermediate Term (IT) Assets		Intermediate Term (IT) Liabilities	
Cash Value Life Insurance	\$ -	Portion of loans more than 12 Months On:	
Machinery, Equipment, Trucks	\$ -	° Machinery and Equipment	\$ -
	\$ -		\$ -
Non-farm vehicles	\$ -	° Vehicles	\$ -
	\$ -	° Household / Furnishings	\$ -
Stock/Securities - not readily marketable	\$ -	° Life Insurance Premiums	\$ -
Household Furnishings and Equipment	\$ -	° Total Credit Card Debt	\$ -
Recreational Equipment	\$ -		\$ -
	\$ -		\$ -
Other Intermediate Assets	\$ -	Other Intermediate Liabilities	\$ -
Total -Intermediate Assets	\$ -	Total-Intermediate Liabilities	\$ -
Long Term (LT) Assets		Long Term (LT) Liabilities	
Farm Real Estate		Real Estate Mortgages (except those under CURRENT section)	
	\$ -		\$ -
	\$ -		\$ -
	\$ -		\$ -
Other Real Estate	\$ -		\$ -
	\$ -	Total-Long Term Liabilities	\$ -
Personal Residence	\$ -	TOTAL LIABILITIES	\$ -
	\$ -	Present Net Worth (Assets less Liabilities)	\$ -
TOTAL ASSETS	\$ -	Total Liabilities and Net Worth	\$ -

For purpose of securing credit from time to time, this statement is furnished and is certified to be true and correct. I (or We) agree to notify said Bank promptly of any material change herein.

SIGNATURE

DATE

Page 1 of 5 SIGNATURE

DATE

SPRING MACHINERY MAINTENANCE

Planting season is almost here, which means it is time for farmer-style spring cleaning. Checking your planting equipment will give you a head start for a successful year. Best practices are to have tools on hand and your service manuals at the ready. There are many places online you can find a new manual if yours is misplaced. You can download a PDF or there are places to order a printed copy to purchase.

STEP 1: CLEAN

Cleaning the equipment NEEDS to be the very first step. Best practice is to clean the equipment before it is put away for the winter/summer. This way you can clean/pressure wash the mud and dirt off easier.

Some service manuals will have different practices to use to clean certain parts easier. This would be with chemical treatments, hot/cold pressure washes, or even vacuuming out certain things before pressure washing.

Another good practice, if possible, is to blow off any flat surfaces or and enclosed areas to get rid of dirt that has built up from the last use. This will include decks, joints, housings, and even rakes. It is best to blow off these areas every few days during use to keep things cleaner and prevent overheating.

While doing the cleaning, it is easy to notice things that are broken or wore that will need to be fixed or replaced.

STEP 2: USE A FARM-EQUIPMENT INSPECTION CHECKLIST

Ensure that your equipment is in top working condition before you hit the fields.

- **Batteries:** Is your battery holding a charge? Make sure to check for signs of corrosion and replace any parts or the battery as a whole as needed.
- **Brakes:** Check and adjust drives, clutches, and brakes according to the manual.
- **Bushings:** Be on the lookout for wear and tear. Check each parallel linkage for loose parts or slop. If you think there is too much slop, this is a good time to replace the bushings.
- **Closing wheels:** Make sure the closing wheels are equal distance to the center of the seed furrow. These should be checked for slop and should be adjusted accordingly. Make sure you have the right spring pressure for the soil conditions.
- **Cooling system:** Check coolant levels and also check for cracks in hoses from freezing this winter.
- **Engine and steering:** Make sure the engine is warm by running it for 5 minutes. Make sure to check the exhaust and steering systems are working properly.
- **Filters:** Check and replace filters as needed. (Air, Oil, etc.)
- **Fire extinguisher:** Make sure it is fully charged and functional.

- **Fluids:** Check all fluids and replace accordingly. These should be changed regularly in accordance with your maintenance journal. Types of fluids to check are fuel, transmission fluids, hydraulic fluids, coolants, engine oil, etc.
- **Gauge wheels:** Check for wear and replace any worn wheels. Adjust so they are barely touching the disc blades, but still turn with minimal resistance. Replace arms or bushings that allow the wheel to pull away from the disc blades.
- **Hitches:** Check for the correct hitch pins and safety clips for what you plan to pull. If need be, the hitch height should be adjusted so the planter is level. Check the manual for proper height/setup instructions.
- **Hoses, belts, and plastic parts:** Check for wear and cracks.
- **Hydraulic lines:** First, pressurize the hydraulic lines, and look for leaks. However, just know that not every leak will create a telltale puddle, these could be slow leaks that just run down the hoses.
- **Mirrors:** From the seat, check for any driver blind spots. Make sure you will be able to see people, buildings, fence posts, and/or other equipment in your path. Adjust the mirrors for visibility.
- **Nuts and bolts:** Secure tightly and replace broken ones.
- **Planter frame:** The planter frame must be level and at the correct height. Being level and the correct height is important because this can affect the seedbed, seed depth, and seed spacing. Each row-unit attachment and closing wheel will be affected also. This is the most important step in growing a good crop.
- **Safety equipment:** Check to see if all shields and guards are attached correctly and in good working order.
- **Seed tubes:** As stated before, the seed tubes are some of the most important things to growing a good crop. Make sure they are not worn, bent, or deformed. There should be no holes, cracks, or splits. Investing money in the seed tube guards is also a good practice for properly placed seeds in the furrow.
- **Tires:** Make sure each tire is the correct PSI according to Maintenance Journal. Make sure you have the proper tread and no objects in each tire. Check lug nuts and make sure they are tight.
- **Wires:** Make sure there is no rodent damage to any wires.

STEP 3: DO A FINAL WALK-AROUND

Make sure all lights (headlights, taillights, and turn signals) are working properly. Testing these before you get in the field gives you a good chance at fixing them the correct way. Make sure your Slow-Moving-Vehicle signs are visible and reflective from behind.

Flanagan State Bank Ag Lending Team



STORAGE TABLES

Corn

Local Cash Bid - 12/31/20

Operating Note Interest 5%

Dec2020 Cash Price: \$ 4.73

Months	Oct	Nov	Dec	Jan	Feb	Mar
Cost out of the Field	\$ 4.73	\$ 4.73	\$ 4.73	\$ 4.73	\$ 4.73	\$ 4.73
Interest Costs at 5% per bu	\$ 0.0135	\$ 0.0270	\$ 0.0405	\$ 0.0540	\$ 0.0675	\$ 0.0810
Minimum Storage	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16
Storage Cost bu per month	\$ -	\$ -	\$ -	\$ 0.03	\$ 0.06	\$ 0.09
Shrink 15%-14%	\$ 0.061	\$ 0.061	\$ 0.061	\$ 0.061	\$ 0.061	\$ 0.061
Total Cost	\$ 0.23	\$ 0.25	\$ 0.26	\$ 0.31	\$ 0.35	\$ 0.39
Actual Price	\$ 4.49	\$ 4.48	\$ 4.47	\$ 4.42	\$ 4.38	\$ 4.34

Months	Apr	May	June	July	Aug	Sept
Cost out of the Field	\$ 4.73	\$ 4.73	\$ 4.73	\$ 4.73	\$ 4.73	\$ 4.73
Interest Costs at 5% per bu	\$ 0.0945	\$ 0.1080	\$ 0.1215	\$ 0.1350	\$ 0.1485	\$ 0.1620
Minimum Storage	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16	\$ 0.16
Storage Cost bu per month	\$ 0.12	\$ 0.15	\$ 0.18	\$ 0.21	\$ 0.24	\$ 0.27
Shrink 15%-14%	\$ 0.061	\$ 0.061	\$ 0.061	\$ 0.061	\$ 0.061	\$ 0.061
Total Cost	\$ 0.44	\$ 0.48	\$ 0.52	\$ 0.57	\$ 0.61	\$ 0.65
Actual Price	\$ 4.29	\$ 4.25	\$ 4.20	\$ 4.16	\$ 4.12	\$ 4.07

Soybeans

Operating Note Interest 5%

Dec2020 Cash Price: \$ 12.96

Months	Oct	Nov	Dec	Jan	Feb	Mar
Cost out of the Field	\$ 12.96	\$ 12.96	\$ 12.96	\$ 12.96	\$ 12.96	\$ 12.96
Interest Costs at 5% per bu	\$ 0.039	\$ 0.078	\$ 0.117	\$ 0.156	\$ 0.195	\$ 0.234
Minimum Storage	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18
Storage Cost bu per month	\$ -	\$ -	\$ -	\$ 0.033	\$ 0.066	\$ 0.099
Total Cost	\$ 0.22	\$ 0.26	\$ 0.30	\$ 0.37	\$ 0.44	\$ 0.51
Actual Price	\$ 12.74	\$ 12.70	\$ 12.66	\$ 12.59	\$ 12.51	\$ 12.44

Months	Apr	May	June	July	Aug	Sept
Cost out of the Field	\$ 12.96	\$ 12.96	\$ 12.96	\$ 12.96	\$ 12.96	\$ 12.96
Interest Costs at 5% per bu	\$ 0.273	\$ 0.312	\$ 0.351	\$ 0.390	\$ 0.429	\$ 0.468
Minimum Storage	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18	\$ 0.18
Storage Cost bu per month	\$ 0.132	\$ 0.165	\$ 0.198	\$ 0.231	\$ 0.267	\$ 0.300
Total Cost	\$ 0.59	\$ 0.66	\$ 0.73	\$ 0.80	\$ 0.88	\$ 0.95
Actual Price	\$ 12.37	\$ 12.30	\$ 12.23	\$ 12.15	\$ 12.08	\$ 12.01



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