



NUTS & BOLTS

... Teachers delivering knowledge that works to North America's Farm and Ranch Families

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The Farm Financial Standards Council

By James D. Libben, Department of Agricultural Economics and Agricultural Business, New Mexico State University

The Farm Financial Standards Council (FFSC) was begun in 1989 through the initiative of the Agricultural Bankers Division of the American Bankers Association. This diverse group consisted of commercial banks, Farm Credit System, Farm Service Agency, trade lenders, accountants, attorneys, agricultural economists, and representatives of farm trade groups and software firms. The mission of the FFSC was then, and continues to be, "to provide education and a national forum to facilitate the development, review, communication, and promotion of uniformity and integrity in both financial reporting and the analytical techniques useful for effective and realistic measurement of the financial position and the financial performance of agricultural producers."

The FFSC was conceived during the Farm Debt Crisis era of the early-to-mid 1980s in a response to a clear need for better financial information for agricultural producers. The Ag Bankers hoped to create a body to study and develop standardized methods of financial reporting and analysis that lenders, accountants, and farmers could agree upon and use. Although lively debate is still characteristic of FFSC meetings, all members share FFSC's mission.

Originally, the strategic objective of the FFSC was to develop and maintain its Financial Guidelines for Agricultural Producers that was first released in 1991. Following the FFSC's goals, Guidelines has four substantive sections:

- **Universal Financial Reports.** This section outlines suggested procedures and concepts for constructing farm financial statements for the purposes of financial reporting and financial analysis. The basic set of four financial statements (balance sheet, income statement, statement of cash flows, and statement of owner equity) is reiterated and the philosophy adopted by the FFSC with respect to long-term endorsement of Generally Accepted Accounting Principles, recognition of diversity in practice, and areas

of departure from GAAP are emphasized.

- **Universal Financial Criteria and Measures.** This section defines a minimum set of widely-used measures of financial position and financial performance and discusses their computation, interpretation, and limitations.

- **Universal Information Management.** This section begins the process of finding common ground for an agricultural database using standardized farm financial information.

- **Appendices.** Fully developed examples of farm financial statements and financial measure computations, a glossary, and additional clarifying materials are presented in nine appendices to the Guidelines. The purpose of the appendices is simple—to help practitioners understand and apply the recommendations of the FFSC contained in the Guidelines.

Soon, each NFRBMEA member will receive a letter detailing how to learn more information about the FFSC and its Guidelines. The dedication of agricultural accountants, lenders, researchers, and all farm and ranch business management educators is necessary for agriculture to come together to develop standardized methods of reporting and analyzing financial data.

Ongoing projects of the FFSC include efforts to evaluate and develop charts of accounts for various types of enterprises, evaluate the computational integrity of farm accounting packages, to further analyze the impact of deferred taxes on financial statements and analysis, and to study management accounting processes.

There are many opportunities for NFRBMEA members to contribute to the Council's activities at each of its two annual meetings (in August and in November) and to the continuing work of its standing committees.

A Message From Dr. Larry J. Klingbeil, NFRBMEA President

New Beginnings

The holiday season is over and many people are planning for 1998 by making New Year's resolutions. Resolutions represent the hopes, goals and visions of a preferred future. We may challenge ourselves to recognize past mistakes and strive to avoid them in the future. We can analyze our strengths and weaknesses by making an accurate accounting of what has happened in previous years. With this knowledge, we can work to make appropriate changes in our operating procedures to make our future superior to our past.

Many of you are in the process of working with farmers as they finish up their records and compile information to complete their business analysis. A farm analysis gives them an opportunity to review and plan for future decisions and challenges. Farmers, as well as teachers, can use this time to learn from experience and to have a more promising future. As we learn, we look forward to each year as a rebirth - a hope for a better tomorrow.

We tend to get into a rut. We may not even question why we do things a certain way. Without at least an annual investigation that looks into the soul of the person or business, to find out what we are doing and how we are doing it, there can be no professional or business progress.

Now is our chance to make a difference in our lives and in the lives of our students. The analysis of our past and the contemplation of our future is an opportunity to look at the courses we have charted. We all must decide if the current heading of our lives or businesses is the direction in which we wish to continue. We are the "captains of our own destinies". What do we want each port in our lives to look like? Indeed, how do we know when our journey is on course or when we have reached a desired landfall?

Have you made your visualizations of what you want 1998 to be?

The officers and committees of the NFRBMEA are hard at work. We see the NFRBMEA as the leading farm business management education organization on the continent.

We need to plan for our professional future. Information will be coming soon concerning the 26th National Conference to be held June 13-18 at Chillicothe, Missouri. The organizers have prepared a program with nationally-known speakers and interesting tours for you to learn from and enjoy. As always, there are many outstanding activities for families as well.

Don't hesitate. Don't miss it. Be there.

Tomorrow can be better than today! Plan for your future.

—Dr. Larry J. Klingbeil



A special thanks to everyone who contributed to this issue or submitted articles. We are always looking for more. Please keep them coming in, especially those states outside Minnesota. We want to hear from you, too.— WP

Program Standards for Farm and Ranch Business Management Education Programs

By Vic Richardson, Austin, MN

The NFRBMEA has been considering the development of a set of program standards that would guide the quality improvement of local programs of Farm and Ranch Management Education. In May of 1995, the membership was surveyed regarding views on certification. This resulted in 62 responses that generally accepted the adoption of some process to establish program standards that could lead to program accreditation.

In June of 1996, 79 members at the NFRBMEA Conference completed a survey consisting of 44 statements pertaining to program quality for Farm and Ranch Management Education Programs. The results were included in the proceedings of the 1997 Conference.

At the 1997 Conference, a committee was appointed to determine if each of

the 44 statements should be brought before our group at the 1998 Conference for ratification. The Standards Committee consists of Vic Richardson, Chair; Pat Harrington, Gordon Williams, Jim Riley, Maylon Peters, Dennis Jackson and Larry Klingbeil. This committee will make a recommendation to the membership at the 1998 Conference.

The next step is for the NFRBMEA to ratify the quality statements, selecting those statements that the membership agrees are appropriate quality indicators. The quality statements ratified will then be published by the organization with instructions given on how they might be used to improve program quality. Each state is then encouraged to use this set of standards in an exploratory way to determine if there are other important generally applicable measures that should be added or mea-

asures included in the statements that are not appropriate. After a couple of years, the organization should revisit the accreditation question to determine if it would be feasible to institute a regular accreditation program as is currently done in many other post-secondary disciplines.

The question of accreditation and standards is an important one. There should be at minimum a set of standards or guidelines that outline the parameter of a quality program. This would allow assurance that similar programs in different schools or institutions are offering the same kind of high quality instruction to their students as are others. By working together, we are able to provide a high quality Farm Business Management Education Program to meet the needs of our farmers and ranchers.

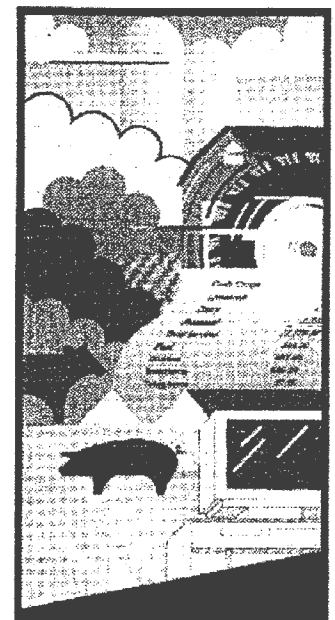
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Thanks NPPC!

By Dennis Jackson

The National Pork Producers Council (NPPC) sponsored a conference for Farm & Ranch Business Management Educators October 13-15, 1997, in Des Moines, Iowa.

It was a great conference. Topics included; Delivery Strategies for Adult Education, Talking the Language of Pork Production, Pork Quality & PSE, Key Environmental Issues, Market Outlook, Production & Financial Standards, Managing Risk, What it Takes to Get Along, Keys to Finding & Keeping Good Employees, Swine Health Challenges, Leasing of Capital Assets, and Networking. Some of the sessions dealt primarily with issues in the pork industry, but many such as delivery strategies, environmental issues, financial standards, managing risk, employee issues, and asset leasing are applicable to any of us teaching management education in agriculture.

The NPPC is committed to education. Their commitment was evident in their sponsorship of this activity for educators in adult agriculture programs. They identified and pulled together a task force of teachers to discuss adult education. From those discussions two committees were formed, one dealing with instructional delivery and another to plan the conference. Attendees at the conference only had to get there. Once there, NPPC provided the conference (no registration fee), paid for the lodging, and provided all the meals (we experienced a number of new ways to

serve pork). It doesn't get much better than that.

When the task force met to review the conference, the evaluations were very positive. A decision was made to continue the activity, and to combine it with the Extension Educators Conference that the NPPC also sponsors. It will be even bigger and better than last year. A committee of ag educators was selected to plan next fall's conference that will likely be held in September or October, 1998. Planning committee members are: Jim Athen, IA; Tom Baas, IA; Glenn Conaster, TN; Jerry Gibson, NC; Wayne Gipp, MT; Denny Jackson, MN; John Murray, MN; Jim Riley, MO; Bob Roesler, MN; Todd See, NC; and Wayne Singleton, IN. NPPC leadership is provided by former ag educators Earl Dotson and Jeff Ward, with lots of support from other NPPC staff.

Next fall is still a long way off -- we don't even have the conference dates established yet. Now is the time to start making plans to save some travel budget for getting there. Even if pork production is not the major ag industry in your area, when you get to the conference you will find lots of worthwhile information that you can use in your program.

By the way, Earl Dotson is planning to be at our NFRBMEA conference in Chillicothe, MO, in June to fill you in on the details.

Summary of Fall Board Meeting

By Mike Lockhart, NFRBMEA Secretary

On October 23, 1997, the NFRBMEA Board of Directors met in Chillicothe, Missouri. This is a summary of the secretary's notes.

- Much of our agenda had to do with the Annual Conference to be held in Missouri. The plans for the 1998 Conference are progressing. Perhaps one of the biggest changes in the upcoming conference is that no one will be allowed in without paid registration. Personal checks will be accepted and held for up to 30 days until school purchase orders come in. If your school has not paid at the time you register, be prepared to give the Conference Registration a personal check. The Conference Committee is also planning on a \$50 late registration fee, so be sure to look at the registration material when you get it.
- New brochures are being printed for membership. We are looking at some pictures and colors.
- A report on home page progress was made.
- The Founder's Forum now has 78 members. It was decided that no other promotions for membership would be planned.

We urge every member to come to Missouri in June. John Sponaugle, Brian Thompson, and Jim Grozinger are planning a great conference in a beautiful part of the country.



NFRBMEA Website

By Paul Gorman

The NFRBMEA website will be on line by the end of January. Gary Spurrell, member from Olds, Alberta is directing efforts to get the site on a server at Alberta Agriculture. The website committee has been forwarding information to Gary for inclusion on the site. The homepage will include a short description, history, and purpose of the association. The startup site will include an officer directory and '98 National conference agenda and registration information. Back issues of the Nuts and Bolts and selections from the membership brochure will complete the startup. Membership lists and addresses, links to sites of interest, upcoming events, state and international associations will follow in February and March. The site address will be distributed as soon as possible to the membership and links to it from other sites will be put in place. Please direct comments and suggestions to:

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NFRBMEA Crossover

By John Caster

I had the privilege of attending the American Bankers Association Agricultural Conference November 8-12, 1997 in Milwaukee, Wisconsin. The theme of this year's conference was "Taking Charge of Change." Once again, speaker after speaker discussed the challenges facing agriculture and agricultural lending into the next century and concluded that business success depends upon sound financial decision making based on accurate financial reporting (records).

What we are doing in Farm and Ranch Business Management Education is now getting the recognition it has deserved for many years! In addition, our organization, the NFRBMEA, is being recognized as a major force in the move to make the Farm Financial Standards a useful and practical tool in decision making. We can all take pride in our profession and our professional organization!

The 1998 conference will be in Minneapolis, Minnesota November 8-11. I would urge anyone who can to attend.

Promise Yourself

EDITOR'S NOTE: Mark Berg, farm management instructor at Detroit Lakes, MN, recently used the following inspirational writing in his newsletter. It is by Christian D. Larson. I thought you might enjoy it.

Promise yourself:

- To be so strong that nothing can disturb your peace of mind;
 - To talk health, happiness and prosperity to every person you meet;
 - To make all your friends feel there is something in them;
 - To look at the sunny side of everything and make your optimism come true;
 - To think only of the best, to work only for the best, to expect only the best;
 - To be as enthusiastic about the success of others as you are about your own success;
 - To forget the mistakes of the past and press on to the greater achievements of the future;
 - To wear a cheerful countenance at all times and to give every living creature you meet a smile;
 - To give so much time to the improvement of yourself, you have no time to criticize others;
- To be too large for worry, too noble for anger, too strong for fear and too happy to permit the presence of trouble.

Conference Preview

Chillicothe will be a welcoming green for our annual conference in June. Preliminary program plans include tours to Premium Standard's 85,000 sow hog operation, TransOva Genetics, and the Peter Brewer farm.

You will be receiving conference registration materials soon. If you would like more information sooner check out the Missouri Web site:

<http://etcs.ext.missouri.edu/agebb/mgt/aae/>.



FARM MANAGEMENT EDUCATION ABROAD

By Tim Holtquist and Dan Perkins

For many Americans, Kazakhstan may be one of the many countries that seemed to appear from nowhere after the collapse of the Soviet Union. Kazakhstan is large, poor, and sparsely populated. Sprawling between the Caspian Sea on the west and Mongolia on the east, it is an area about a third the size of the contiguous United States, yet its population is less than 17 million.

Since gaining political independence from the Soviet Union, the new country is struggling to gain economic independence as well. According to farm management instructors Tim Holtquist and Dan Perkins, it has a long way to go.

Holtquist and Perkins were in Kazakhstan from July 10 – 18, 1994 to assess the status and needs of the country's agriculture and to give some basic advice where possible. They were sponsored by an organization in Little Rock, Arkansas, called Winrock International. Its purpose is to send individuals with certain expertise to the newly independent states of the former Soviet Union to help those states emerge into the modern world.

The Minnesotans went to a farm about 35 kilometers from an 1800 person village called Bushkua, in the Sempalatinsk region near China and Mongolia. The area is semi-arid and very similar to central Montana both in topography and climate.

They spent time with Khumar, a 60-year-old farmer, who had been one of 14 to leave the nearby collective farm and try to make a go of it on his own. Other workers, given the same choice, stayed to work on the state farm. Khu-

mar was given the use of about 2500 acres of poor land and some machinery. He does not own the land and cannot sell it, but he can pass it on to his sons when the time comes.

The continued existence of the state-run farm is a reminder that change will not be easy or swift. When the Soviet Union broke up, the people in power in many of the newly independent states, such as Kazakhstan, remained in power and have been slow to encourage reform. In fact, Holtquist and Perkins felt they had been thrown back in time to rural America of the 1930's and 1940's.

State farms retained the best land. Khumar's 2500 acres, most of which is pastureland, barely supports 10 cattle and 60 sheep. About 200 acres is planted with wheat. To compound the problems of poor land, farmers like Khumar have little concept of how to run a farm efficiently. It takes Khumar, his son, and two hired men to maintain the farm. "They're still mired in the old Soviet way of thinking," said Perkins, "Even if there isn't enough work for four men, Khumar will keep everyone on because that's the way it's always been done."

The main thing that Kazakhstan lacks is a working infrastructure. For example, the country is rich in minerals and oil, yet there is a gas shortage. They are not getting the oil out of the ground, refined, and shipped to where it has to go. It took 15 hours to make the 600-mile trip by car from Alma-Ata (also known as Almaty), the capital, to Bushkua. The road was asphalt, but rough, narrow, and with no road signs or services. The gasoline for the trip had to be carried in the trunks of the

cars. Traveling in groups of at least two cars is encouraged, because in the event of a breakdown, robbery by Mongolians who have crossed the border for just such a purpose is a real possibility. "Somebody said the whole trip was like taking 10 years of risk in two weeks," said Holtquist and Perkins. "There's also a lack of proper sanitation and medical facilities. If something breaks down or if you get sick or injured, you're in trouble. We feel lucky that nothing happened to us."

Inefficiency and the lack of basic goods and services that we take for granted can be a crippling combination. Something that might take us 10 minutes to fix here would take a Kazakhstani a half a day or more. For example, if Khumar broke a fan belt or had a flat tire, he probably wouldn't have a spare with him. He would have to go back to the village to look for one, which he may or may not find. By the time the problem got resolved, a whole day may have been wasted. Problems like this lead the farm management instructors to believe that it may be 60 or 70 years before Kazakhstan becomes a full partner in a global economy.

Even trading with neighboring countries is not as easy as it should be because trade agreements are constantly in a state of flux. Part of the problem is that old animosities and distrusts still affect the way that members of the former Soviet Union deal with each other.

For 70 years prior to independence, everything was geared toward meeting Moscow's demands. Now the Kazakhstani are starting from scratch at creating a self-sustaining economy.

(ABROAD, continued on page 7)

(ABROAD, continued from page 6)

There is no banking system to speak of and no such thing as credit. If someone could get a loan from one of the big banks, the interest rate would be 350 percent. Khumar kept saying how he needed credit and how he needed to make a profit. Without an economy to support independent farmers and with current inefficiencies, it is unlikely that farmers will make a profit anytime soon.

While not seeing many positive things about the economy, Perkins and Holtquist came away with respect for the Kazakh culture. Kazakhstanis are very family oriented and treated their guests with great respect. "The people we came in contact with knew what was going on and were very receptive to suggestions. The impact we had was probably small, but to the people we met, it was pretty big. At times, we wish we could have done more," Holtquist said.



Kohl Update

By John Caster

At the American Bankers Association conference, in a presentation titled "Wake-up Call for the New Millennium," Dr. David Kohl, Virginia Polytechnic University, suggested to the American Bankers Association Agriculture Conference attendees that the following are among the biggest challenges facing agriculture into the 21st century:

1. Transition to the new generation
2. Determining appropriate price for risk
3. Increased cost of capital items
4. International events
5. Hiring good people
6. Technology changes in both farming and lending

Dr. Kohl told the bankers that in the face of these challenges, their good customers would get better and their bad customers would become more risky. To compensate, bankers must spend more time with their larger customers and less with unprofitable customers. What does this mean to our farm and ranch business management education program participants? I

think it simply emphasizes the point that the future in agriculture belongs to those who become good financial managers.

Dr. Kohl described a top or "A" customer as one with 150% debt coverage ratio, less than 70% operating expense to revenue ratio, and/or high, stable off-farm income. A farm in transition with less than desirable financial ratios can become an "A" customer, but usually needs a high (above \$500,000) equity. According to Kohl, there is a thin edge between "B" customers (farms that have a chance to succeed) and "Z" customers (farms that are destined to fail).

Our challenge, as FRBM instructors, then, seems to be to help our cooperators get into the "A" or "B" category by knowing where they are headed while they still have time to make necessary changes. Efficiency in production will continue to be the engine that pulls the train, but successful farm families will be those who also learn some new financial skills and learn to apply them in the decision making process.

Personal Improvement

by Keith Torgerson

You need to cultivate optimism just like you cultivate your crops. Having an optimistic attitude—when you believe you can change circumstances—protects you against depressing times. A pessimist is a person who blames every setback they have on their personal flaws, and they feel nothing they can do will make it better.

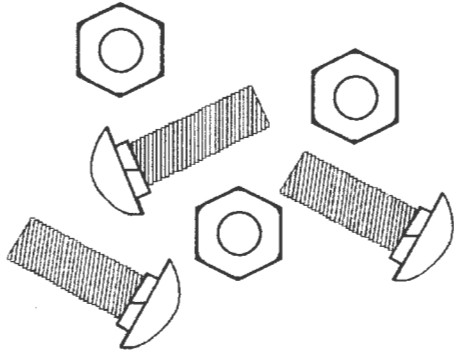
Whenever a huge problem confronts you, tackle it by taking dynamic steps. Sit down and determine what your goal actually is and then plan specific steps to reach that goal. Of course, you will need to get these steps accomplished if you expect to achieve your goal—make it happen. Every time you turn a situation around like this you become more optimistic.

You can also stimulate optimism by reading. Reading books or articles that are uplifting will help raise your spirits.

It is normal human nature to feel sure that others are happier than we are. But, you know, once you find what these people are really like, you find out that they probably are not any happier than you.

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