

UNITED STATES DEPARTMENT OF AGRICULTURE  
FEDERAL CROP INSURANCE CORPORATION  
LIVESTOCK RISK PROTECTION POLICY  
SPECIFIC COVERAGE ENDORSEMENT – SWINE



This provision of the Livestock Risk Protection policy offers protection against a decline in hog prices during the term of this Endorsement. You will receive an indemnity if hog prices drop below a predetermined level and all terms and conditions of the policy have been met. Hog prices under this policy refer to a lean based price series published by the Agricultural Marketing Service (AMS) of the USDA. The length of each endorsement available for swine ranges from 13 to 26 weeks.

**Terms and Conditions**

**1. DEFINITIONS.**

**Actual Ending Value–Swine** - The weighted average price of lean hogs. The days used in the weighted average price calculations are the end date and one day prior to the end date. The Actual Ending Value is to be used in calculations on a dollars per cwt basis. The AMS price series used will be the same series used to settle the lean hog futures contract at the Chicago Mercantile Exchange. The weighted average price is calculated using two Producer Sold data series in the report, the *Negotiated* and the *Swine or Pork Market Formula* (SPMF) categories. The steps to calculate the weighted average price are:

1. Multiply the *Negotiated Head Count* by the *Negotiated Average Carcass Weight* for each of the two days of the index to calculate the Negotiated Volume for each day.
2. Multiply the results from 1 by the *Negotiated Average Net Price* for each of the two days of the index to calculate the Negotiated Total Value for each day.
3. Multiply the *SPMF Head Count* by the *SPMF Average Carcass Weight* for each of the two days of the index to calculate the SPMF Volume for each day.
4. Multiply the results from 3 by the *SPMF Average Net Price* for each day of the two days in the index to calculate the SPMF Total Value for each day.
5. Add the Negotiated Total Values to the SPMF Total Values (four numbers) to calculate the Two Day Total Value.
6. Add the Negotiated Volumes and SPMF Volumes (a total of four numbers) to calculate the Two Day Total Volume.
7. Divide the result of 5 by the result of 6.

The AMS report is available on the Internet at [http://www.ams.usda.gov/mnreports/lm\\_hg201.txt](http://www.ams.usda.gov/mnreports/lm_hg201.txt). The Special Provisions should be checked for changes in the report name, number, or location. If the end date is a Saturday, Sunday, a non-report day due to a Federal holiday, or if there is no reported information for whatever reason, then the calculation will be based on the two report days just prior to the end date.

**Ending Period** - The period of two business days, ending on the end date, over which the actual ending value is determined.

**Expected Ending Value** - The market price expected at the end of the insurance period, and found in the actuarial documents. The Expected Ending Value represents lean weight value and is used in calculations, on a dollars per hundredweight basis, to determine coverage prices.

**Insured Swine** - The swine covered under the policy. The swine that the producer expects to have and to market (for slaughter) at the end of the insurance period.

**Target Weight** - The anticipated lean weight of swine (per head) at the ending period on a cwt. basis. To convert live weight to lean weight, multiply the live weight by the lean weight conversion factor of .74. For example, a 2.50 cwt. per head live weight is equal to 1.85 cwt. lean weight. The Target Weight should fall within the range of 1.50 and 2.25 cwt (this equates to a head weighing from about 203 to 304 lbs. on a live basis).

**2. COVERAGE LIMITATIONS.**

The maximum number of swine that may be insured under any one Specific Coverage Endorsement shall be 10,000 head, and during any crop year shall be 32,000 head.

**3. PREMIUMS.**

- (a) Your total premium is determined by:
- (1) Multiplying the number of head by the target weight (in lean cwt);
  - (2) Multiplying section 3(a)(1) by the coverage price;
  - (3) Calculating the insured value by multiplying section 3(a)(2) by the insured share;
  - (4) Calculating total premium by multiplying section 3(a)(3) by the rate contained in the Rate Table published daily in the actuarial documents;
  - (5) Multiplying the result of section 3(a)(4) by the

applicable producer subsidy percentage to calculate the appropriate amount of subsidy;

(6) Subtracting the result from section 3(a)(5) from the result from section 3(a)(4).

(b) Premium calculation example:

An operation has 1,000 head of hogs and expects to market the hogs at 2.50 cwt. each. Therefore, the target weight is 2.50 times the lean weight conversion factor of .74, which is 1.85 cwt. The insured share is 100 percent. The expected ending value is \$55.00 dollars per cwt. and the producer selects a coverage price of \$52.25 per cwt (on a lean cwt basis). For this coverage price the rate is 2.8708%. The premium subsidy is 13 percent. The premium is calculated by:

- (1) 1,000 head times 1.85 equals 1,850 cwt.
- (2) 1,850 cwt. times the coverage price of \$52.25 equals \$96,663
- (3) \$96,663 times the insured share of 1.00 equals an insured value of \$96,663
- (4) \$96,663 times the rate of .028708 equals \$2,775 total premium
- (5) \$2,775 times the producer premium subsidy percentage of .13 equals \$361
- (6) Subtracting \$361 from \$2,775 equals the producer premium of \$2,414.

#### 4. INDEMNITY.

(a) An indemnity is calculated and payable if the actual ending value is less than the coverage price (otherwise the indemnity is zero). The indemnity calculation is determined by:

- (1) Multiplying the number of head by the target weight (in lean cwt);
- (2) Subtracting the actual ending value from the coverage price (this will always be a positive number if an indemnity is due);
- (3) Multiplying 4(a)(1) by 4(a)(2);
- (4) Multiplying 4(a)(3) by the insured share.

(b) Indemnity calculation example:

For the above operation with 1,000 head of hogs, a target weight of 1.85 cwt., an insured share of 100 percent, and a coverage price of \$52.25 per cwt., the actual ending value is equal to \$44.80 per cwt. Since \$44.80 is less than the coverage price of \$52.25, an indemnity is due.

Indemnity is calculated by:

- (1) 1,000 head times the 1.85 target weight equals 1,850 cwt.
- (2) Subtracting the actual ending value of \$44.80 from the coverage price of \$52.25 equals \$7.45/cwt.
- (3) Multiplying 1,850 cwt. by \$7.45/cwt. equals \$13,783
- (4) Multiplying \$13,783 by the insured share of 1.00 equals an indemnity payment of \$13,783.

**Financial Performance Measures Using Market Value Balance Sheet**

	2004 Industry Benchmark				
	<u>2004</u>	<u>2005</u>	<u>Top 1/3</u>	<u>Middle 1/3</u>	<u>Bottom 1/3</u>
Current Ratio	2.04:1	2.38:1	2.98:1	1.90:1	1.27:1
Working Capital	\$188,145	\$242,972	\$221,000	\$183,000	\$133,000
Debt/Asset Ratio	0.49:1	0.47:1	0.19:1	0.36:1	0.48:1
Debt/Equity Ratio	0.97:1	0.89:1	0.23:1	0.53:1	0.85:1
Rate of Return on Farm Assets	11.78%	12.28%	19.30%	12.50%	7.80%
Rate of Return on Farm Equity	17.93%	17.98%	31.50%	18.50%	8.10%
Operating Profit Margin Ratio	0.20:1	0.26:1	0.37:1	0.31:1	0.23:1
Asset Turnover Ratio	0.58:1	0.43:1	0.50:1	0.38:1	0.27:1
Operating Expense Ratio	0.67:1	0.59:1	0.49:1	0.53:1	0.59:1
Depreciation Expense Ratio	0.04:1	0.04:1	0.03:1	0.05:1	0.08:1
Interest Expense Ratio	0.06:1	0.06:1	0.03:1	0.05:1	0.08:1
Net Farm Income from Operations Ratio	0.23:1	0.31:1	0.45:1	0.37:1	0.25:1
Opportunity Cost of Unpaid Family Labor	\$ 80,000	\$ 80,000	\$78,000	\$55,000	\$32,000

**Financial Coefficients for the Time Value of Money**

Years	Interest Rate		7%		
	Present Value of 1	Future Value of 1	Present Value/Ordinary Annuity	Future Value of Ordinary Annuity	Amortization Factors
1	0.9346	1.0700	0.9346	1.0000	1.0700
2	0.8734	1.1449	1.8080	2.0700	0.5531
3	0.8163	1.2250	2.6243	3.2149	0.3811
4	0.7629	1.3108	3.3872	4.4399	0.2952
5	0.7130	1.4026	4.1002	5.7507	0.2439
6	0.6663	1.5007	4.7665	7.1533	0.2098
7	0.6227	1.6058	5.3893	8.6540	0.1856
8	0.5820	1.7182	5.9713	10.2598	0.1675
9	0.5439	1.8385	6.5152	11.9780	0.1535
10	0.5083	1.9672	7.0236	13.8164	0.1424
11	0.4751	2.1049	7.4987	15.7836	0.1334
12	0.4440	2.2522	7.9427	17.8885	0.1259
13	0.4150	2.4098	8.3577	20.1406	0.1197
14	0.3878	2.5785	8.7455	22.5505	0.1143
15	0.3624	2.7590	9.1079	25.1290	0.1098
16	0.3387	2.9522	9.4466	27.8881	0.1059
17	0.3166	3.1588	9.7632	30.8402	0.1024
18	0.2959	3.3799	10.0591	33.9990	0.0994
19	0.2765	3.6165	10.3356	37.3790	0.0968
20	0.2584	3.8697	10.5940	40.9955	0.0944
21	0.2415	4.1406	10.8355	44.8652	0.0923
22	0.2257	4.4304	11.0612	49.0057	0.0904
23	0.2109	4.7405	11.2722	53.4361	0.0887
24	0.1971	5.0724	11.4693	58.1767	0.0872
25	0.1842	5.4274	11.6536	63.2490	0.0858

**Financial Coefficients for the Time Value of Money**

Years	Interest Rate		11%		
	Present Value of 1	Future Value of 1	Present Value/Ordinary Annuity	Future Value of Ordinary Annuity	Amortization Factors
1	0.9009	1.1100	0.9009	1.0000	1.1100
2	0.8116	1.2321	1.7125	2.1100	0.5839
3	0.7312	1.3676	2.4437	3.3421	0.4092
4	0.6587	1.5181	3.1024	4.7097	0.3223
5	0.5935	1.6851	3.6959	6.2278	0.2706
6	0.5346	1.8704	4.2305	7.9129	0.2364
7	0.4817	2.0762	4.7122	9.7833	0.2122
8	0.4339	2.3045	5.1461	11.8594	0.1943
9	0.3909	2.5580	5.5370	14.1640	0.1806
10	0.3522	2.8394	5.8892	16.7220	0.1698
11	0.3173	3.1518	6.2065	19.5614	0.1611
12	0.2858	3.4985	6.4924	22.7132	0.1540
13	0.2575	3.8833	6.7499	26.2116	0.1482
14	0.2320	4.3104	6.9819	30.0949	0.1432
15	0.2090	4.7846	7.1909	34.4054	0.1391
16	0.1883	5.3109	7.3792	39.1899	0.1355
17	0.1696	5.8951	7.5488	44.5008	0.1325
18	0.1528	6.5436	7.7016	50.3959	0.1298
19	0.1377	7.2633	7.8393	56.9395	0.1276
20	0.1240	8.0623	7.9633	64.2028	0.1256
21	0.1117	8.9492	8.0751	72.2651	0.1238
22	0.1007	9.9336	8.1757	81.2143	0.1223
23	0.0907	11.0263	8.2664	91.1479	0.1210
24	0.0817	12.2392	8.3481	102.1742	0.1198
25	0.0736	13.5855	8.4217	114.4133	0.1187

**PRODUCTION SUMMARIES**

**Planned versus Actual Production**

	Unit	Qty	Production	Total	
<b>Planned for 2005</b>					
Corn, Feed	acres	400	160	64000	bu
Soybeans	acres	225	50	11250	bu
Farrow to Finish	litters	550	7.75	4262.5	head
<b>Actual for 2005</b>					
Corn, Feed	acres	356	210	74760	bu
Soybeans	acres	264	61	16104	bu
Farrow to Finish	litters	585	8.1	4738.5	head
<b>Planned for 2006</b>					
Corn, Feed	acres	313	160	50080	bu
Soybeans	acres	313	50	15650	bu
Farrow to Finish	litters	575	7.75	4456.3	head

**Crop and Livestock Projections for 2006**

	Beg	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Corn Equivalents</b>													
Produced											50080		
Fed		4459	4362	4277	4196	4120	4500	4581	4533	4533	4533	4533	4533
Inventory	69000	64541	60179	55902	51705	47585	43085	38504	33971	29437	79984	70451	65918
<b>Soybeans</b>													
Produced											15650		
Sold					5368	5368	5368						
Price					\$5.85	\$6.00	\$6.15						
Inventory	16104	16104	16104	16104	10736	5368	0	0	0	0	15650	15650	15650
<b>Raised Hogs</b>													
No. Sows		360	355	350	345	340	340	340	340	340	340	340	340
Produced		349	388	372	372	372	372	372	372	372	372	372	372
Sold		296	345	365	365	365	365	365	365	365	365	365	365
Price		\$45	\$46	\$44	\$43	\$46	\$48	\$50	\$50	\$47	\$44	\$41	\$42
Inventory	2024	2057	2079	2086	2093	2100	2107	2094	2081	2068	2055	2042	2029

**2006 Projected Cash Flow**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
<b><u>CASH INFLOWS</u></b>													
Raised hogs	34632	41262	41756	40807	43654	45552	50050	50050	47047	44044	41041	42042	521937
Soybeans	0	0	0	31200	32000	32800	0	0	0	0	0	0	96000
Cull Breeding Stock	2868	2868	2868	2868	2868	2868	2868	2868	2868	2868	2868	2868	34416
DCP payments	0	9000	0	0	0	0	0	0	9000	0	0	9000	27000
Patronage dividend	0	0	0	0	0	0	0	0	0	1500	1500	0	3000
Other farm (Hormel)	37145												37145
<b>Total farm income</b>	<b>74645</b>	<b>53130</b>	<b>44624</b>	<b>74875</b>	<b>78522</b>	<b>81220</b>	<b>52918</b>	<b>52918</b>	<b>58915</b>	<b>48412</b>	<b>45409</b>	<b>53910</b>	<b>719498</b>
Other non-farm	250	250	250	250	250	250	250	250	250	250	250	250	3000
<b>Total inflows</b>	<b>74895</b>	<b>53380</b>	<b>44874</b>	<b>75125</b>	<b>78772</b>	<b>81470</b>	<b>53168</b>	<b>53168</b>	<b>59165</b>	<b>48662</b>	<b>45659</b>	<b>54160</b>	<b>722498</b>
<b><u>CASH OUTFLOWS</u></b>													
<b><u>Operating Expenses</u></b>													
Seed	0	0	0	0	0	0	0	0	0	0	16276	0	16276
Fertilizer	0	0	0	3130	0	3130	0	0	0	0	0	0	6260
Chemicals	0	0	0	0	0	10016	0	0	0	0	0	0	10016
Crop insurance	0	0	0	0	0	0	0	0	0	157	157	0	314
Drying fuel	0	0	0	0	0	0	0	0	0	0	3756	0	3756
Crop- Custom hire	0	0	0	0	0	0	0	0	0	1565	1565	0	3130
Purchased feed	14890	14819	14713	14610	14510	15377	15552	15443	15443	15443	15443	15443	181686
Breeding	1494	1401	1556	1494	1494	1494	1494	1494	1494	1494	1494	1494	17897
Veterinary	808	808	804	800	796	822	827	823	823	823	823	823	9780
Supplies	867	870	868	866	865	901	907	903	903	903	903	903	10659
Livestock Marketing	200	228	240	240	240	240	252	252	252	252	252	252	2900
Fuel & oil	640	640	640	1280	2560	1920	640	640	640	2560	3200	640	16000
Repairs	160	160	160	320	400	480	320	240	400	560	480	320	4000
Machinery Repairs	685	685	685	2056	2741	2056	2056	685	685	2056	3426	685	18501

(Continued on Page R13)

**Projected Cash Flow - continued**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
(Operating expenses-cont.)													
Livestock Repairs	417	417	417	417	417	417	417	417	417	417	417	417	5004
Building Repairs	652	652	652	652	1304	1304	1957	652	652	2609	2609	1304	14999
Custom hire	0	0	0	0	8000	0	0	0	0	12000	0	0	20000
Labor	4667	4667	4667	4667	4667	4667	4667	4667	4667	4667	4667	4667	56004
Land rent	0	0	0	4730	0	0	0	0	0	0	4730	0	9460
M & B leases- corn head	0	0	0	0	0	0	0	0	4900	0	0	0	4900
M & B leases- hog bldg.	0	0	0	0	0	0	0	0	0	0	0	0	0
Real estate taxes	0	0	0	0	4825	0	0	0	0	0	4825	0	9650
Farm insurance		0	0	3600	0	0	0	0	0	3600	0	0	7200
Utilities	1364	1364	1364	909	909	909	909	909	1364	1818	1818	1364	15001
Dues & fees	0	167	0	167	0	167	0	167	0	167	0	167	1002
Misc. operating expenses	583	583	583	583	583	583	583	583	583	583	583	583	6996
<b>Total operating expenses</b>	<b>27427</b>	<b>27461</b>	<b>27349</b>	<b>40521</b>	<b>44311</b>	<b>44483</b>	<b>30581</b>	<b>27875</b>	<b>33223</b>	<b>51674</b>	<b>67424</b>	<b>29062</b>	<b>451391</b>
<b>Non-farm expenses</b>													
Family living	4583	4583	4583	4583	4583	4583	4583	4583	4583	4583	4583	4583	54996
Income taxes	0	0	11000	0	0	0	0	0	0	0	0	0	11000
<b>Total non-farm expenses</b>	<b>4583</b>	<b>4583</b>	<b>15583</b>	<b>4583</b>	<b>4583</b>	<b>4583</b>	<b>4583</b>	<b>4583</b>	<b>4583</b>	<b>4583</b>	<b>4583</b>	<b>4583</b>	<b>65996</b>
<b>Capital Purchases</b>													
Grinder	0	0	0	0	0	25000	0	0	0	0	0	0	25000
Gilts	0	0	0	4500	4500	4500	4500	0	4500	4500	4500	4500	36000
Beanhead	0	0	0	0	0	0	0	0	0	20000	0	0	20000
<b>Total capital purchases</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4500</b>	<b>4500</b>	<b>29500</b>	<b>4500</b>	<b>0</b>	<b>4500</b>	<b>24500</b>	<b>4500</b>	<b>4500</b>	<b>81000</b>
<b>Scheduled loan payments</b>													
Principal	2000	10000	12000	12000	8000	2000	2000	6000	2000	2000	2000	32723	92723
Interest	864	4404	6110	6235	4094	864	864	3722	864	864	864	21684	51433
<b>Total sch. loan payments</b>	<b>2864</b>	<b>14404</b>	<b>18110</b>	<b>18235</b>	<b>12094</b>	<b>2864</b>	<b>2864</b>	<b>9722</b>	<b>2864</b>	<b>2864</b>	<b>2864</b>	<b>54407</b>	<b>144156</b>
<b>Total Outflows</b>	<b>34874</b>	<b>46448</b>	<b>61042</b>	<b>67839</b>	<b>65488</b>	<b>81430</b>	<b>42528</b>	<b>42180</b>	<b>45170</b>	<b>83621</b>	<b>79371</b>	<b>92552</b>	<b>742543</b>

(Continued on Page R14)



**Farrow to Finish Hogs (per litter)**

OPERATING INPUTS				VALUE	YOUR VALUE
Corn				\$ 154.28	_____
Creep/Starter				\$ 28.08	_____
Protein, Vit., Minerals				\$ 245.89	_____
Breeding Fees				\$ 25.99	_____
Veterinary				\$ 27.17	_____
Supplies				\$ 38.60	_____
Custom Hire				\$ 7.03	_____
Hired Labor				\$ 67.59	_____
Leases				\$ 4.70	_____
Fuel and Oil				\$ 4.03	_____
Utilities				\$ 23.34	_____
Repairs				\$ 1.70	_____
Repairs, Machinery				\$ 3.16	_____
Repairs, Equipment				\$ 8.63	_____
Repairs, Building				\$ 12.69	_____
Dues				\$ 0.56	_____
Operating Interest				\$ 0.05	_____
<b>TOTAL OPERATING COSTS</b>				<b>\$ 653.49</b>	_____
<b>FIXED COSTS</b>					
Real Estate Taxes				\$ 3.25	_____
Farm Insurance				\$ 6.00	_____
Interest				\$ 32.70	_____
Depreciation				\$ 20.09	_____
Miscellaneous				\$ 7.22	_____
<b>TOTAL FIXED COSTS</b>				<b>\$ 69.26</b>	_____
<b>PRODUCTION</b>					
	Units	Price	Quantity	VALUE	YOUR VALUE
Finished Hogs	Cwt.	\$ 40.00	20.15	\$ 806.00	_____
Culled Breeding Stock				\$ 53.12	_____
<b>TOTAL RECEIPTS</b>				<b>\$ 859.12</b>	_____
<b>TOTAL RECEIPTS</b>				<b>\$ 859.12</b>	_____
<b>TOTAL OPERATING COSTS</b>				<b>\$ 653.49</b>	_____
<b>RETURNS ABOVE TOTAL OPERATING COSTS</b>				<b>\$ 205.63</b>	_____
<b>TOTAL FIXED COSTS</b>				<b>\$ 69.26</b>	_____
<b>RETURNS ABOVE ALL SPECIFIED COSTS</b>				<b>\$ 136.37</b>	_____

NOTE: 7.75 hogs marketed/litter; finished hogs marketed @ 260 lbs. (2.6 cwt.)

**CORN, Owned Land**

OPERATING INPUTS				VALUE	YOUR VALUE
Seed				\$ 60.85	_____
Fertilizer				\$ 56.21	_____
Crop Chemicals				\$ 17.54	_____
Crop Insurance				\$ 0.28	_____
Drying Fuel				\$ 4.21	_____
Machinery Leases				\$ 7.97	_____
Building Leases				\$ 4.81	_____
Fuel and Oil				\$ 23.37	_____
Custom Hire				\$ 24.14	_____
Hired Labor				\$ 29.62	_____
Dues				\$ 0.58	_____
Utilities				\$ 1.26	_____
Repairs				\$ 4.06	_____
Repairs, Machinery				\$ 29.10	_____
Repairs, Building				\$ 12.98	_____
Operating Interest				\$ 0.94	_____
<b>TOTAL OPERATING COSTS</b>				<b>\$ 277.92</b>	_____
<b>FIXED COSTS</b>					
Real Estate Taxes				\$ 14.26	_____
Farm Insurance				\$ 6.14	_____
Interest				\$ 51.50	_____
Machinery Depreciation				\$ 24.00	_____
Building Depreciation				\$ 1.62	_____
Miscellaneous				\$ 4.92	_____
<b>TOTAL FIXED COSTS</b>				<b>\$ 102.44</b>	_____
<b>PRODUCTION</b>					
	Units	Price	Quantity	VALUE	YOUR VALUE
Corn	bushels	\$ 1.65	210	\$ 346.50	_____
Net Government Payment				\$ 43.56	_____
Other				\$ 104.00	_____
<b>TOTAL RECEIPTS</b>				<b>\$ 494.06</b>	_____
<b>TOTAL RECEIPTS</b>				<b>\$ 494.06</b>	_____
<b>TOTAL OPERATING COSTS</b>				<b>\$ 277.92</b>	_____
<b>RETURNS ABOVE TOTAL OPERATING COSTS</b>				<b>\$ 216.14</b>	_____
<b>TOTAL FIXED COSTS</b>				<b>\$ 102.44</b>	_____
<b>RETURNS ABOVE ALL SPECIFIED COSTS</b>				<b>\$ 113.70</b>	_____

**CORN, Rented Land**

OPERATING INPUTS				VALUE	YOUR VALUE
Seed				\$ 60.85	_____
Fertilizer				\$ 56.21	_____
Crop Chemicals				\$ 17.54	_____
Crop Insurance				\$ 0.28	_____
Drying Fuel				\$ 4.21	_____
Land Rent				\$ 110.00	_____
Machinery Leases				\$ 7.97	_____
Building Leases				\$ 4.81	_____
Fuel and Oil				\$ 23.37	_____
Custom Hire				\$ 24.14	_____
Hired Labor				\$ 29.62	_____
Dues				\$ 0.58	_____
Utilities				\$ 1.26	_____
Repairs				\$ 4.06	_____
Repairs, Machinery				\$ 29.10	_____
Repairs, Building				\$ 12.98	_____
Operating Interest				\$ 0.94	_____
<b>TOTAL OPERATING COSTS</b>				<b>\$ 387.92</b>	_____
<b>FIXED COSTS</b>					
Farm Insurance				\$ 6.14	_____
Interest				\$ 19.32	_____
Machinery Depreciation				\$ 24.00	_____
Building Depreciation				\$ 1.62	_____
Miscellaneous				\$ 4.92	_____
<b>TOTAL FIXED COSTS</b>				<b>\$ 56.00</b>	_____
<b>PRODUCTION</b>					
	Units	Price	Quantity	VALUE	YOUR VALUE
Corn	bushels	\$ 1.65	210	\$ 346.50	_____
Net Government Payment				\$ 43.56	_____
Other				\$ 104.00	_____
<b>TOTAL RECEIPTS</b>				<b>\$ 494.06</b>	_____
<b>TOTAL RECEIPTS</b>				<b>\$ 494.06</b>	_____
<b>TOTAL OPERATING COSTS</b>				<b>\$ 387.92</b>	_____
<b>RETURNS ABOVE TOTAL OPERATING COSTS</b>				<b>\$ 106.14</b>	_____
<b>TOTAL FIXED COSTS</b>				<b>\$ 56.00</b>	_____
<b>RETURNS ABOVE ALL SPECIFIED COSTS</b>				<b>\$ 50.14</b>	_____

**SOYBEANS, Owned Land**

OPERATING INPUTS				VALUE	YOUR VALUE
Seed				\$ 30.69	_____
Crop Chemicals				\$ 13.88	_____
Crop Insurance				\$ 0.38	_____
Machinery Leases				\$ 7.97	_____
Building Leases				\$ 3.98	_____
Fuel and Oil				\$ 19.12	_____
Custom Hire				\$ 19.75	_____
Hired Labor				\$ 24.24	_____
Dues				\$ 0.47	_____
Utilities				\$ 1.03	_____
Repairs				\$ 3.32	_____
Repairs, Machinery				\$ 23.81	_____
Repairs, Building				\$ 10.62	_____
Operating Interest				\$ 0.77	_____
<b>TOTAL OPERATING COSTS</b>				<b>\$ 160.03</b>	_____
<b>FIXED COSTS</b>					
Real Estate Taxes				\$ 14.26	_____
Farm Insurance				\$ 5.02	_____
Interest				\$ 47.99	_____
Machinery Depreciation				\$ 19.63	_____
Building Depreciation				\$ 1.32	_____
Miscellaneous				\$ 4.03	_____
<b>TOTAL FIXED COSTS</b>				<b>\$ 92.25</b>	_____
<b>PRODUCTION</b>					
	Units	Price	Quantity	VALUE	YOUR VALUE
Soybeans	bushels	\$ 5.50	60	\$ 330.00	_____
Net Government Payments				\$ 43.56	_____
<b>TOTAL RECEIPTS</b>				<b>\$ 373.56</b>	_____
<b>TOTAL RECEIPTS</b>				<b>\$ 373.56</b>	_____
<b>TOTAL OPERATING COSTS</b>				<b>\$ 160.03</b>	_____
<b>RETURNS ABOVE TOTAL OPERATING COSTS</b>				<b>\$ 213.53</b>	_____
<b>TOTAL FIXED COSTS</b>				<b>\$ 92.25</b>	_____
<b>RETURNS ABOVE ALL SPECIFIED COSTS</b>				<b>\$ 121.28</b>	_____

**SOYBEANS, Rented Land**

OPERATING INPUTS	VALUE	YOUR VALUE			
Seed	\$ 30.69	_____			
Crop Chemicals	\$ 13.88	_____			
Crop Insurance	\$ 0.38	_____			
Drying Fuel	\$ 4.21	_____			
Land Rent	\$ 110.00	_____			
Machinery Leases	\$ 7.97	_____			
Building Leases	\$ 3.98	_____			
Fuel and Oil	\$ 19.12	_____			
Custom Hire	\$ 19.75	_____			
Hired Labor	\$ 24.24	_____			
Dues	\$ 0.47	_____			
Utilities	\$ 1.03	_____			
Repairs	\$ 3.32	_____			
Repairs, Machinery	\$ 23.81	_____			
Repairs, Building	\$ 10.62	_____			
Operating Interest	\$ 0.77	_____			
<b>TOTAL OPERATING COSTS</b>	<b>\$ 274.24</b>	_____			
<b>FIXED COSTS</b>					
Farm Insurance	\$ 5.02	_____			
Interest	\$ 15.81	_____			
Machinery Depreciation	\$ 19.63	_____			
Building Depreciation	\$ 1.32	_____			
Miscellaneous	\$ 4.03	_____			
<b>TOTAL FIXED COSTS</b>	<b>\$ 45.81</b>	_____			
<b>PRODUCTION</b>					
	Units	Price	Quantity	VALUE	YOUR VALUE
Soybeans	bushels	\$5.50	60	\$ 330.00	_____
Net Government Payment				\$ 43.56	_____
<b>TOTAL RECEIPTS</b>				<b>\$ 373.56</b>	_____
<b>TOTAL RECEIPTS</b>				<b>\$ 373.56</b>	_____
<b>TOTAL OPERATING COSTS</b>				<b>\$ 274.24</b>	_____
<b>RETURNS ABOVE TOTAL OPERATING COSTS</b>				<b>\$ 99.32</b>	_____
<b>TOTAL FIXED COSTS</b>				<b>\$ 45.81</b>	_____
<b>RETURNS ABOVE ALL SPECIFIED COSTS</b>				<b>\$ 53.51</b>	_____

**INCOME STATEMENTS FOR J & J FARM**

	2004	2005
<b>Revenue</b>		
Soybeans	\$75,027	\$87,125
Raised Hogs	\$597,999	\$512,028
Finish Hogs		\$6,475
Cull Breeding Livestock	\$34,067	\$31,077
Govt. Payments	\$37,364	\$63,202
Total Patronage Dividends	\$6,519	\$3,311
Other farm income	\$5,719	\$5,224
<b>Accrual Adjustments</b>		
Account Receivable	\$10,599	\$26,546
Crops	\$88,407	\$40,162
Market Livestock	\$29,430	-\$13,861
<b>Total Revenue</b>	<b>\$885,131</b>	<b>\$761,289</b>
<b>Expenses</b>		
<b>Operating Expenses</b>		
Seed	\$18,211	\$31,622
Fertilizer	\$22,603	\$9,061
Crop chemicals	\$7,542	\$440
Crop insurance	\$1,611	\$200
Drying fuel	\$9,638	\$1,500
CCC buyback	\$114,599	
Purchased feed	\$217,028	\$160,270
Breeding fees	\$15,863	\$15,205
Veterinary	\$9,010	\$12,893
Supplies	\$9,753	\$22,582
Fuel & oil	\$13,666	\$15,729
Repairs	\$4,034	\$3,314
Repair, Machinery	\$28,603	\$18,493
Repairs, Livestock Equip		\$5,049
Repairs, Buildings		\$14,847
Custom hire	\$20,621	\$17,917
Hired labor	\$47,051	\$56,482
Land rent	\$7,740	\$9,460
Total machinery & bldg leases	\$10,942	\$7,692
Real estate taxes	\$9,475	\$9,518
Farm insurance	\$4,563	\$7,022
Utilities	\$11,761	\$14,373
Dues & professional fees	\$660	\$661
Miscellaneous	\$6,301	\$7,035

(Continued on Page R6)

Income Statements - continued

	2004	2005
<b>Accrual Adjustments</b>		
Accounts Payable	\$2,118	\$4,293
Prepaid Expenses	\$1,207	\$2,072
Depreciation	\$34,202	\$32,728
<b>Total Operating Expenses</b>	<b>\$628,802</b>	<b>\$480,458</b>
<b>Interest Expense</b>		
Cash Interest Paid	\$51,365	\$53,636
Change in Accrued Interest	\$1,729	-\$5,706
<b>Total Interest Expense</b>	<b>\$53,094</b>	<b>\$47,930</b>
<b>Total Expenses</b>	<b>\$681,896</b>	<b>\$528,388</b>
<b>Net Farm Income from Operations</b>	<b>\$203,235</b>	<b>\$232,901</b>

**COMPARATIVE BALANCE SHEETS (Cost-Basis)**

<b><u>ASSETS</u></b>	<b><u>1997</u></b>	<b><u>1998</u></b>	<b><u>1999</u></b>	<b><u>2000</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>
<b>Currents Farm Assets</b>									
Cash and checking balance	-548	487	4,354	50	911	52,692	4,156	2,365	2,364
Prepaid exp & supplies	17,745	0	0	0	0	5,000	0	17,758	15,686
Accounts recievable	26,984	0	0	0	0	0	0	10,599	37,145
Crops and feed	53,684	43,084	39,357	67,448	23,400	8,382	7,493	95,900	201,850
Crops under govt loan	164,836	95,164	40,013	97,107	109,670	156,804	149,097	65,788	-
Market livestock	111,744	63,339	115,830	105,575	133,440	141,815	146,370	175,800	161,939
<b>Total current farm assets</b>	<b>374,445</b>	<b>202,074</b>	<b>199,554</b>	<b>270,180</b>	<b>267,421</b>	<b>364,693</b>	<b>307,116</b>	<b>368,210</b>	<b>418,984</b>
<b>Non-Current Farm Assets</b>									
Breeding livestock	33,800	24,650	33,750	32,220	0	0	0	57,850	57,850
Machinery and equipment	115,224	111,144	100,030	100,122	135,569	161,749	200,732	183,168	194,505
Other Intermediate assets	74,508	67,060	60,355	55,225	54,414	49,245	49,775	45,295	40,766
Farmland	421,000	421,000	421,000	421,000	421,000	421,000	421,000	421,000	421,000
Buildings & improvements	203,517	202,973	195,900	251,769	248,374	245,996	243,164	231,005	411,065
Other long term assets	0	0	0	0	0	0	57,247	57,247	57,247
<b>Total non-current assets</b>	<b>848,049</b>	<b>826,827</b>	<b>811,035</b>	<b>860,336</b>	<b>859,357</b>	<b>877,990</b>	<b>971,918</b>	<b>995,565</b>	<b>1,182,433</b>
<b>Total farm assets</b>	<b>1,222,494</b>	<b>1,028,901</b>	<b>1,010,589</b>	<b>1,130,516</b>	<b>1,126,778</b>	<b>1,242,683</b>	<b>1,279,034</b>	<b>1,363,775</b>	<b>1,601,417</b>
<b><u>LIABILITIES</u></b>									
<b>Current Farm Liabilities</b>									
Accrued interest	22,939	18,616	18,547	18,507	20,249	17,925	15,621	17,350	11,644
Accts pay & accr expense	3,686	0	0	0	0	0	15,233	17,351	21,644
Current farm loans	42,000	41,605	2	16,733	32,516	106,676	59,651	656	50,001
Principal on CCC loans	128,553	94,526	40,013	95,217	108,764	136,712	114,599	61,277	0
Princ due on term loans	42,404	9,254	33,984	39,642	45,703	55,781	76,495	83,431	92,723
<b>Total current farm liabilities</b>	<b>239,582</b>	<b>164,001</b>	<b>92,546</b>	<b>170,099</b>	<b>207,232</b>	<b>317,094</b>	<b>281,599</b>	<b>180,065</b>	<b>176,012</b>
<b>Non-Current Farm Liabilities</b>									
Bldg, & Breeding Livst.	177,782	176,173	156,140	132,905	140,713	125,813	126,643	159,068	148,379
Land	457,852	453,647	475,706	502,216	482,287	459,713	467,441	405,323	501,183
<b>Total non-current liabilities</b>	<b>635,634</b>	<b>629,820</b>	<b>631,846</b>	<b>635,121</b>	<b>623,000</b>	<b>585,526</b>	<b>594,084</b>	<b>564,391</b>	<b>649,562</b>
<b>Total liabilities</b>	<b>875,216</b>	<b>793,821</b>	<b>724,392</b>	<b>805,220</b>	<b>830,232</b>	<b>902,620</b>	<b>875,683</b>	<b>744,456</b>	<b>825,574</b>
<b>Net worth</b>	<b>347,278</b>	<b>235,080</b>	<b>286,197</b>	<b>325,296</b>	<b>296,546</b>	<b>340,063</b>	<b>403,351</b>	<b>619,319</b>	<b>775,843</b>

**COMPARATIVE BALANCE SHEETS (Market Value)**

<b><u>ASSETS</u></b>	<b><u>1997</u></b>	<b><u>1998</u></b>	<b><u>1999</u></b>	<b><u>2000</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>
<b>Currents Farm Assets</b>									
Cash and checking balance	-548	487	4,354	50	911	52,692	4,156	2,365	2,364
Prepaid exp & supplies	17,745	0	0	0	0	5,000	18,965	17,758	15,686
Accounts recievable	26,984	0	0	0	0	0	0	10,599	37,145
Crops and feed	53,684	43,084	39,357	67,448	23,400	8,382	7,493	95,900	201,850
Crops under govt loan	164,836	95,164	40,013	97,107	109,670	156,804	149,097	65,788	0
Market livestock	111,744	63,339	115,830	105,575	133,440	141,815	146,370	175,800	161,939
<b>Total current farm assets</b>	<b>374,445</b>	<b>202,074</b>	<b>199,554</b>	<b>270,180</b>	<b>267,421</b>	<b>364,693</b>	<b>326,081</b>	<b>368,210</b>	<b>418,984</b>
<b>Non-Current Farm Assets</b>									
Breeding livestock	32,050	20,615	32,500	30,970	33,520	32,705	34,500	57,850	57,850
Machinery and equipment	140,900	131,947	118,750	117,531	152,108	176,883	219,322	203,969	216,922
Other Intermediate assets	74,508	67,060	60,355	55,225	54,414	49,245	49,775	46,291	41,662
Farmland	550,000	550,000	550,000	550,000	550,000	550,000	550,000	550,000	550,000
Buildings & improvements	203,517	202,973	195,900	251,769	248,374	245,996	243,164	231,005	413,375
Other long term assets	0	0	0	0	0	0	57,247	57,247	57,247
<b>Total non-current farm assets</b>	<b>1,000,975</b>	<b>972,595</b>	<b>957,505</b>	<b>1,005,495</b>	<b>1,038,416</b>	<b>1,054,829</b>	<b>1,154,008</b>	<b>1,146,362</b>	<b>1,337,056</b>
<b>Total farm assets</b>	<b>1,375,420</b>	<b>1,174,669</b>	<b>1,157,059</b>	<b>1,275,675</b>	<b>1,305,837</b>	<b>1,419,522</b>	<b>1,480,089</b>	<b>1,514,572</b>	<b>1,756,040</b>
<b><u>LIABILITIES</u></b>									
<b>Current Farm Liabilities</b>									
Accrued interest	22,939	18,616	18,547	18,507	20,249	17,925	15,621	17,350	11,644
Accts pay & accr expense	3,686	0	0	0	0	0	15,233	17,351	21,644
Current farm loans	42,000	41,605	2	16,733	32,516	106,676	59,651	656	50,001
Principal on CCC loans	128,553	94,526	40,013	95,217	108,764	136,712	114,599	61,277	0
Princ due on term loans	42,404	9,254	33,984	39,642	45,703	55,781	76,495	83,431	92,723
<b>Total current farm liabilities</b>	<b>239,582</b>	<b>164,001</b>	<b>92,546</b>	<b>170,099</b>	<b>207,232</b>	<b>317,094</b>	<b>281,599</b>	<b>180,065</b>	<b>176,012</b>
<b>Non-Current Farm Liabilities</b>									
Buildings & Breeding Livst.	177,782	176,173	156,140	132,905	140,713	125,813	126,643	159,068	148,379
Land	457,852	453,647	475,706	502,216	482,287	459,713	467,441	405,323	501,183
<b>Total non-current Liabilities</b>	<b>635,634</b>	<b>629,820</b>	<b>631,846</b>	<b>635,121</b>	<b>623,000</b>	<b>585,526</b>	<b>594,084</b>	<b>564,391</b>	<b>649,562</b>
<b>Total farm liabilities</b>	<b>875,216</b>	<b>793,821</b>	<b>724,392</b>	<b>805,220</b>	<b>830,232</b>	<b>902,620</b>	<b>875,683</b>	<b>744,456</b>	<b>825,574</b>
<b>Net worth</b>	<b>500,204</b>	<b>380,848</b>	<b>432,667</b>	<b>470,455</b>	<b>475,605</b>	<b>516,902</b>	<b>604,406</b>	<b>770,116</b>	<b>930,466</b>

## INTRODUCTION

John and Joan Miller have always felt that their farm (J & J Farm) was a good place to raise a family. They raised six children, four boys and two girls. All of the children went to college with four of them graduating.

The Millers started farming in 1962 on a small dairy farm on a 50-50 crop and livestock share. In 1965, they purchased a 231-acre dairy farm and milked 55 cows. In 1976, they sold the dairy farm and purchased John's father's 213-acre farm and John's uncle's 140-acre farm including the buildings on both farms. They started their swine enterprise with a 75 sow farrow-to-finish operation. In 1980, the Millers added another 80-acres to the farm business. In 1994, they purchased another 160-acres. Since 1985, the Millers have continuously rented 86-acres. Their primary crops have been corn and soybeans.

The swine enterprise has grown from 75 sows in 1976 to 340 sows in 2005. This growth has always been with farrow-to-finish in mind. In 1976, the gestation was in open front sheds. In 1987, a combination stall and pen was constructed for breeding and gestation. In 2001, a total carted gestation building was added to better care for the sows. As the swine enterprise has grown, the Miller often needed to rent additional finishing space until enough money was made to build their own. The first finishing unit was constructed in 1978. The partial slatted 350 head building is still being used today. A second finishing building was completed in 1994. The 1200 head, curtain-sided, total-slatted building was a great addition to the nursery units that were built in 1990 and 1998. The final phase of the swine enterprise was the addition in 2005 of an 800 head wean-to-finish building.

The Millers have always operated their farm business, J & J Farm, as a sole proprietorship. They use the cash method of accounting. The addition of land and swine buildings since 1976 was possible because of the relationship the Millers had with their financial institution. They have had understanding and futuristic farm loan officers who took personal interest in their farm business and made use of the Millers' farm business records and information.

After completing three years of college, the Miller's son, Jim, has farmed with them since 1987. Jim, his wife, Jennifer, and their five young children currently live on the farm. Jim is in charge of the finishing part of the swine enterprise, along with all the feed grinding. He also has been able to assist with crop enterprises and has, for the past several years, started making input and management decisions. The Millers also have a good employee who has been in charge of breeding, gestation, and farrowing part of the swine enterprise. Jim's spouse, Jennifer, has not been active in the farm business. Over the past few years, Joan has become less involved in the farming operation and more involved with volunteer work.

**(Continued on Page R2)**

### **Introduction - continued**

#### Future

John and Joan have moved off the farm to a small home in town. They would like to retire from the farm business within the next two years when they will be eligible for Social Security. Their retirement goals include: (1) they want to see the farm business continue to be profitable; (2) they want to start the transfer of the farm business over to their son, Jim; (3) they hope to have enough income from the farm business to provide them with their retirement needs; and (4) the Millers hope to be able to do some mission work as long as their health allows them to do so.

To reach their retirement goals, the Millers would like to determine if their son, Jim, could purchase the farm at an affordable price. The farm must provide cash flow for their son and his family, and provide the Millers with a retirement income. One plan is to form a limited liability partnership for the personal property and move it all to Jim over the next five years. They will also plan a type of gift arrangement that would happen on a yearly basis. The other children will receive whatever balance is left on an equal basis. In retirement, John plans to continue to help Jim on a seasonal basis with the crop enterprises. Over time Jim may need to look for other help as John may not be able to help or may not want to help. Also, Jim may want to increase the size of the farm business and need more labor. Jim's children are about ten years away from making the decision to be involved in the farm business.

**2006 NATIONAL FFA**  
**FARM BUSINESS MANAGEMENT**  
**CAREER DEVELOPMENT EVENT**  
**RESOURCE INFORMATION FOR J & J FARM**

**Table of Contents**

Section	Page Number
Introduction	R1
Comparative Balance Sheets-Market Value	R3
Comparative Balance Sheets-Cost Basis	R4
Income Statements	R5
Budgets	
Soybeans--Rented Land	R7
Soybeans--Owned Land	R8
Corn--Rented Land	R9
Corn--Owned Land	R10
Farrow to Finish Swine	R11
Projected Cash Flow	R12
Production Summaries	R15
Financial Coefficients for the Time Value of Money - 11%	R16
Financial Coefficients for the Time Value of Money - 7%	R17
Financial Performance Measures	R18
Appendix A	