

Financial Analysis From A Lender's Perspective

Editor's Note: This is the third of a seven part series to explain how Farm Credit analyzes farm and ranch businesses. A different aspect of financial analysis is addressed in each issue.

Liquidity - The key to weathering the storm

When analyzing the financial health of an agricultural business, one of the first items a lender will measure is liquidity. Assessing liquidity or working capital will tell how well a producer can withstand or recover from a bad year.

Measuring liquidity

Lenders consider a current ratio of 1.5:1 and above acceptable. That indicates the producer has enough current assets to cover expenses and still have a buffer for capital purchases or unseen problems. When the ratio falls to 1:1 or below, a producer must rely on other parts of the balance sheet to recover from a bad year. Often this requires restructuring debt to replace working capital to have the means to operate.

Assessing risk

The amount of working capital needed to maintain a financially sound operation varies depending on the nature and volatility of the commodity produced. Generally, the more frequent the opportunity to sell the commodity and the more stable the market, the less risky, and the less working capital needed. For example, a dairy that sells products monthly doesn't need as much working capital as a farm that sells products once a year, such as a potato grower.

Monitoring trends

While measuring the working capital at one point in time does give an indication of the health of the operation at the time, it's more revealing to compare that to the level of previous years. And if there has been change, it's important to understand what caused the change. For example, your working capital position is directly affected by your earnings

LIQUIDITY OR WORKING CAPITAL:

The amount by which your current assets (CA) exceeds your current liabilities (CL). CA/CL = Current ratio.

Example: CA = \$150,000 and CL = \$100,000, the current ratio is 1.5:1.

CURRENT ASSETS: Items owned that will either be used up within the next year or can be easily converted to cash without affecting the operation of the business.

Examples: Checking account balance, crops on hand, investment in growing crops, calves to be sold.

CURRENT LIABILITIES:

Obligations that must be paid within the next 12 months, including principal payments on term and real estate loans.

Examples: Operating loan balance, principal and accrued interest on tractor payment, accounts payable for supplies.

(positive or negative), capital purchases made with non-borrowed funds, or by refinancing short- or intermediate-term debt to longer term. That's why it's critical that your lender understands the history of your operation as well as your plans for the future. ♦

Next week we will look at cash flow planning.

Nutrena Markets Heifer Feeds For Early Calving

MINNEAPOLIS, Minn. — The Nutrena Feed Division of Cargill has introduced a three-phase feeding program for dairy heifers designed to help shorten the time to first calving and improve milk production.

Called the Herd-Builder program, it features starter, grower, and developer feeds geared to each phase of heifer development.

Dr. Steve Smith, Nutrena's dairy research nutritionist, said the feeds address the sometimes ignored opportunity to help improve dairy production by better nutritional management of replacement heifers.

"Our research shows that when combined with other proper management practices this feeding program makes it possible to reduce the time required to first calving and initial lactation to 22 months, which is six months less than the national average of 28 months. This is accomplished by improving the amino-acid profiles in the feed," said Smith.

The Herd-Builder feeds provide a specific set of amino acids, not just a specific amount of protein, Smith said. This provides the nutrition for optimum growth and reduces the time needed for heifers to become productive. The feeds also contain a carefully designed mix of vitamins, minerals and energy-supplying nutrients.

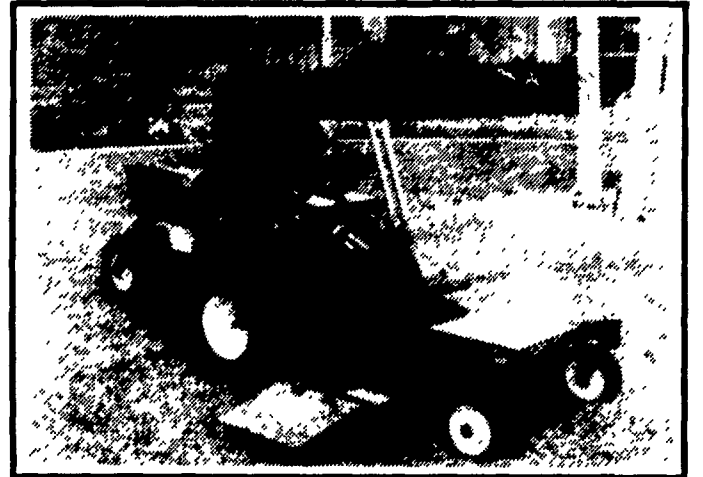
The Herd-Builder program means producers can increase milk production and explore management options such as cutting back on the number of replacement heifers that are needed. They also can be more selective in their replacement choices or accelerate genetic improvements in their herds, Smith said.

The research also showed that faster-developing heifers are bigger at calving, increasing milk production. For every extra 50 pounds of body weight at lactation, a heifer has the capacity to produce 200 extra pounds of milk, Smith said.

Get The

Spirit

**THE ONLY
OUT FRONT ZERO
TURNING RADIUS
MOWER MADE IN 30"
TO 50" CUTTING WIDTH
AT AFFORDABLE PRICES**



Increase production with a new Spirit. The **QUNSTAR** Spirit ZT with exclusive Q Drive or hydrostatic drive and unique natural lever steering allows the operator complete control of the low profile full floating 30", 36", 42" or 50" mower deck. Deck height adjustment and all controls are easily accessible from the fully cushioned operator seat. Powered by an electric start B&S 12-hp I/C, 14 HP or 16 HP Vanguard engine mounted behind the operator. Available w/optional 4-bu. grass collection system. Spirit... an innovative outfront zero-turning-radius mower at an affordable price.

ASK ABOUT OUR FREE CATCHER OFFER

Experience a new Spirit at

One Of These Participating Dealers

PENNSYLVANIA

BERKS CO.
Charles E. Woolf
Rte 501, PO Box 234
Bethel, PA 19507
717-933-4716

FRANKLIN CO.

Brand's Engine Service
1751 Lincoln Way East
Chambersburg, PA 17201
717-264-4965

DELAWARE

KENT
Clarkie's Garage of Smyrna
552 South DuPont Hwy.
Smyrna, DE 19977
302-653-7031

CHESTER CO.

O'Keefe's Small Engine
Service & Sales
Elverson, PA 19520
215-266-0761

LANCASTER CO.

Lawn Care of PA
PO Box 25
Martindale, PA 17549
215-445-4541
Wee Stauffer Engines
& Equipment
23 Pleasant Valley Rd.
Ephrata, PA 17522
717-238-4215

NEW JERSEY

MONMOUTH
Gravelly Tractor Agency
RD #4 Box 12, Rt. 9
Freehold, NJ 07728
908-462-0743

CUMBERLAND CO.

Vinger's Cub Cadet
Sales & Service
1781 Main St. (Lisburn)
Mechanicsburg, PA 17055
717-661-7114

UNION CO.

J.L. Peachy And Sons
Rt. 1 Box 172 Route 304
Winfield, PA 17899
717-886-0465

NEW YORK

SENACA
Zimmerman's Small
Engine Repair
Aaron B. Zimmerman
3680 Watts Road
Waterloo, NY 13165
315-585-8382

Fit Feet Aren't Tired Feet



Unlike horseshoes, close doesn't count in fitting workshoes! That's why this popular oxford comes in this wide range of sizes.

MADE IN USA

101

101 SIZES

AAA	AA	A	B	C	D	E	EE	H
10 15	9 15	7 1/2 16	7 16	6 1/2 15	5 16	6 15	6-14	5 1/2 14

**4 1/2-16
AAA-
EEE**

**RED WING
SHOES**

Call For
FREE
Red Wing Catalog

That's our answer to the man who says "I can't find a Pecos pull-on that fits"

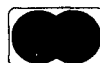
1155

AAA	AA	A	B	C	D	E	EE	EEE
10-14	9-15	8-15	7-16	7-14	4 1/2-16	6-15	6-14	7-14

HOURS: Daily 8:30 A.M. to 6 P.M.; Fri. 'til 8 P.M.



Wayne's Dry Goods
271 W. Main St.
Kutztown, Pa.
Phone (215) 683-7686



**STRIKE
IT
RICH!**

**SELL
IT
WITH
A**

**LANCASTER
FARMING
CLASSIFIED**

