

## Farm and Ranch Management

# Profits down, but most farms still making money

BY ANDREW SWENSON



THE average North Dakota farm experienced its third consecutive down year following record net farm income in 2012. The drop has been precipitous. Average net farm income in 2015 was the lowest since 1998.

The average farm profit for 525 farms that were in the 2015 North Dakota Farm Business Management Education Program state report was \$28,600. This compares with \$76,404 in 2014, \$133,466 in 2013 and \$367,317 in 2012.

Median net farm income, probably a better measure of the typical farm, was \$18,999, \$54,666, \$91,650 and \$239,455 in the four years, 2015 to 2012, respectively. Net farm income is measured in accrual terms. It includes changes in inventories.

There were some positives in 2015. Yields were generally strong, with spring wheat reaching an all-time high; annual profit for the cow-calf enterprise was very good; crop production costs were slightly lower, and government payments were higher than the previous year. However, lower crop prices pushed profit down to the lowest level in 17 years.

### Key Points

- Average profits were down for the third year in a row.
- Profits in 2015 were the lowest since 1998, but most still in black.
- Least profitable farms in 2014 and 2015 were larger than average.

Crop production costs, per acre, had more than doubled from 2004 to 2013. When crop prices dropped sharply after 2012, there was no commensurate decline in crop expenses, and net farm income suffered. Since 2013, production costs for most crops have only declined slightly.

In 2015, the statewide average net return per acre on cash-rented ground was minus \$50 for corn, minus \$27 for canola, minus \$25 for spring wheat and pinto beans, minus \$24 for soybeans and minus \$14 for flax. Net return per acre on cash-rented ground was \$23 for oil sunflowers, and strong \$60- to \$90-per-acre returns were achieved for barley, confection sunflowers, durum wheat, field peas and sugarbeets.

Typically North Dakota crop farms are more profitable than livestock farms, but not in 2015 or 2014. In 2015, the beef cow-calf enterprise profit was the second highest, averaging \$288 per cow, although it was only a fraction of the \$660 all-time high in 2014.

Along with net farm income, other financial measures have declined each year since 2012. The current ratio has dropped from 2.51 in 2012 to 1.45 in 2015, and the asset turnover ratio declined from 52% in 2012 to 30% in 2015.

In 2015, the rate of return on equity was less than the rate of return on assets, which indicates that debt capital was not employed profitably. The average rate of return on equity, minus 1.7%, and the rate of return on assets, 0.5%, were extremely low. The average of the previous 10 years was 13.3% and 9.9%, respectively.

The average farm borrowed \$562,007 during 2015 and made principal payments of \$513,173, thereby increasing farm debt by nearly \$50,000. The relationship between debt and assets (solvency) has deteriorated each year from 2012 to 2015.

Average purchases of machinery, equipment and buildings, such as grain and machinery storage and farm shops, dropped to \$76,996 in 2015 compared with \$121,488 in 2014 and \$194,064 in 2013.

Total government payments, including conservation incentive programs, received in 2015 averaged \$27,301 per farm, compared with \$15,495 in 2014. A year lag occurs in commodity-based safety net program payments under the 2014 Farm Program. Payments, which will be



**SLIM MARGINS:** The farmstead still looks picture-perfect, but average profits were down for the third straight year among North Dakota Farm Management Program participants.

received in the last quarter of 2016, based on the 2015 crop year, will be higher.

The average size of farms in the North Dakota Farm Business Management Education program was 2,371 acres in 2015, of which 533 acres were pasture. The average age of the farm operator and number of years farming were 45.2 and 21.2 years, respectively.

The years 2014 and 2015 were unusual because the least profitable farms had greater acreage than farms in the middle profit group. In 2015, the least profitable 20% of farms had negative net farm income of minus \$141,049, on 2,614 crop and 424 pasture acres. The 20%, or one-fifth, of the most profitable farms had average net farm income of \$214,214 on 2,770 crop and 684 pasture acres. However, the middle 60% profit group had average net farm income of \$23,278, but were much smaller at 1,260 crop and 519 pasture acres.

The state farm business management summary is available online at [ndfarmmanagement.com](http://ndfarmmanagement.com). Regional summaries also are available. In addition to whole-farm financial information, these books detail costs and returns of livestock and crop enterprises.

*Swenson is a North Dakota State University Extension farm management specialist.*

## 2 named to help direct ND ag research

LARRY Hoffman, Wheatland, will join North Dakota's State Board of Agricultural Research and Education, and Richard Roland, Crosby, will serve a second term on the board.

Hoffman will be the North Dakota Ag Coalition representative on the board. He replaces Leland "Judge" Barth of Mandan, whose term expires this year. Roland represents a 10-county area in northwestern North Dakota. Roland and Hoffman will start their four-year terms July 1.

SBARE helps North Dakota State University's North Dakota Agricultural Experiment Station and Extension Service identify needs and set funding priorities.

### Hoffmans operate diversified farm

Hoffman and his son and brother operate a diversified farming operation that raises

### Key Points

- North Dakota ag research board names two directors.
- Larry Hoffman, a farmer and rancher, joins the board.
- Richard Roland, of Legume Logic, will serve a second term.

beef cows, corn, soybeans, wheat, alfalfa, tame hay and, at times, barley, oats, field peas and sunflowers.

He has been a 4-H leader and an Extension advisory board member, as well as a member of grain, fuel, agronomy and county crop improvement boards, including the North Dakota Corn Growers Association and Northern Plains Nitrogen boards, and the Farm Service Agency's Cass County committee.

Hoffman also is chairman of the

National Corn Growers Association's research and business development team and a representative on the National Agricultural Genotyping Center board. He was instrumental in bringing the National Agricultural Genotyping Center to Fargo.

In addition, he has been a member of the North Dakota Stockmen's Association and North Dakota Soybean Growers Association, and has been involved in corn research projects for the SBARE corn committee for 10 years.

### Roland founded Legume Logic

Roland is the founder of Legume Logic, a company involved in introducing alternative crops such as legumes to replace summer fallow in the region. He grew up on a diversified cattle operation north of Bottineau. After graduating from NDSU in

1969, he taught vocational agriculture in LaMoure for four years. After moving to Crosby in 1974, he organized and taught the adult farm management classes in Crosby and Tioga for four years.

In 1978, he started a farm retail store and custom farming operation near Crosby, and introduced sunflowers and no-till winter wheat to the region. Then, through a local farmer investment group, he was involved in building a large hog farrowing facility. He started Legume Logic in 1990.

He has served on several boards, including the advisory board for the U.S. Department of Agriculture's Agricultural Research Service in Mandan, and the North Dakota dry pea and lentil and Crosby parks and recreation boards.

*Source: NDSU Extension*



## Farm and Ranch Management

# Health care costs can sink a farm

**W**ITHOUT a long-term health care plan, a farm or ranch business is facing a potentially huge financial risk, says Lori Scharmer, family economics specialist for the North Dakota State University Extension.

In North Dakota, the cost for a nursing

### Key Points

- Long-term health care is a big financial risk for farmers.
- Nursing home costs may be more than \$99,000 a year.
- You'll have pay for it yourself until you qualify for Medicaid.

home stay may be more than \$99,000 per year, she reports.

One out of two people end up needing nursing home care. "That's why having a long-term health care plan is an essential part of any succession and estate plan. There must be planning to ensure the busi-

ness transitions as the family desires," she says.

Most people don't know who will pay for long-term health care. Many assume Medicaid will cover it. However, there are limits on how much money people can have and still qualify for Medicaid.

In general, the only assets you are allowed to have include:

- land totaling 160 acres and contiguous to the personal residence
- property that is essential to earning a livelihood
- property that is not salable without creating an undue hardship
- personal residence to a maximum value of \$552,000 each (2015)
- one motor vehicle of any value used by the applicant
- personal effects, wearing apparel, household goods and furniture
- gifted assets if gifted 60 months prior to Medicaid application
- prepaid burials to a maximum of \$6,000 per person; is available to both spouses
- value of assets in life estate
- value of mineral acres
- qualified retirement fund accounts (before approval of one spouse for Medicaid, accounts must be annuitized)
- annuities that are excluded based upon Medicaid rules
- Indian trust and restricted lands

Other assets are subject to limitations and spend-down rules, which means assets have to be liquidated or spent on medical care to become eligible for Medicaid.

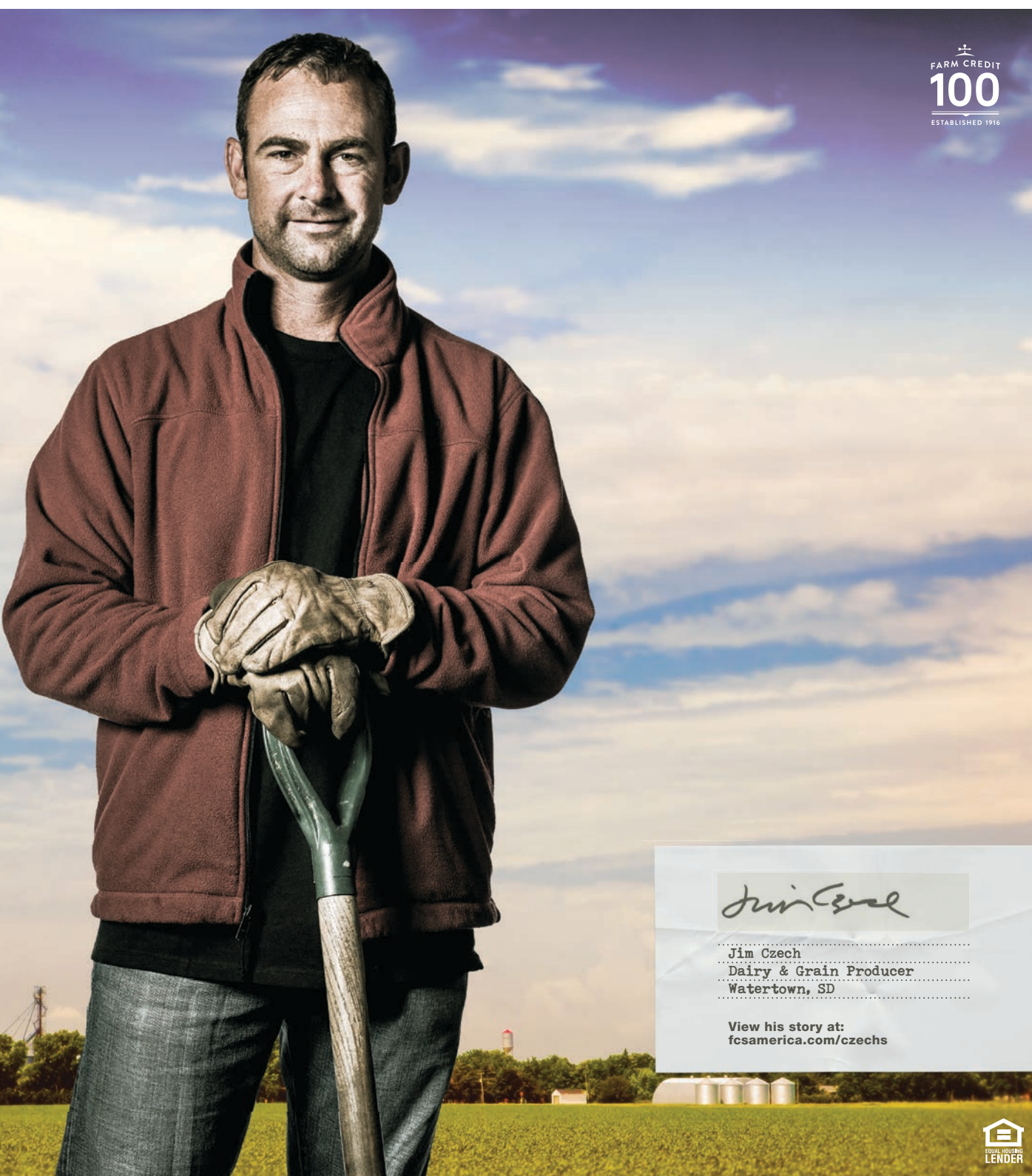
NDSU and University of Minnesota Extension services have developed a publication about long-term health care planning. It outlines what long-term care is, the statistics on the probability of needing long-term care, some of the terms involved, an explanation of the federal Medicare and Medicaid program qualification guidelines, and methods of paying for long-term care.

"This topic is extremely complicated," says Gary Hachfeld, a University of Minnesota Extension educator and co-author of the publication. "When you begin to plan for this area of your life, consider seeking the help of an elder-law attorney."

An elder-law attorney focuses his or her law practice on the area of long-term health care issues and Medicaid planning.

The publication is available through your local NDSU Extension office or online at [tinyurl.com/Long-termHealthCare-NDSU](http://tinyurl.com/Long-termHealthCare-NDSU).

Source: NDSU Extension Service



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