

**CHAMP: Custom Harvesters Analysis and Management Program
General Information (first 2 pages) and Survey Instructions
for Harvest Year 2001 – updated February 7, 2001**

Background

Early in 1998 CHAMP was begun through the joint efforts of USCHI and two Ph.D. agricultural economists at Kansas State University, Terry Kastens and Kevin Dhuyvetter. The first economic analysis covered the 1997 harvest. Analysis of the 2001 harvest will mark the fifth year of the program. CHAMP solicits information about your business that, when combined with information from other harvesters, provides important cost and revenue benchmarks.

CHAMP management and contact information

CHAMP is managed and operated by a small economic and agronomic consulting firm called AgAnalysis+, L.L.C., which has Kastens and Dhuyvetter as members.

business address: AgAnalysis+, 1940 Bluestem Terrace, Manhattan, KS 66502

address for surveys: AgAnalysis+
 c/o Kevin Dhuyvetter
 1808 Cedar Crest Drive
 Manhattan, KS 66503

web address: **aganalysisplus.com (click on CHAMP)**

people: Terry Kastens (785-532-5866 tkastens@aganalysisplus.com)
 Kevin Dhuyvetter (785-532-3527 kdhuyvet@aganalysisplus.com)

Objectives

Short Run: Help you compare your costs, as an individual business, with the custom harvesting industry's costs (or with subsets of the industry, such as by region or by crop specialty)

Long Run: Enhance the effectiveness of your lobbyists in Washington (when the survey achieves sufficient coverage to make it representative of your industry)

Why get involved?

Making money is not as simple as knowing your costs and charging slightly more to garner a profit. If your costs are especially high for the services you provide, the cost-plus-markup process will mean you don't get jobs – you've priced yourself out of the market. If your costs are especially low, you don't maximize profits as you leave money on the table – you could be charging more. Rather, long-run profitability is about being a low-cost operator for the services you render in terms of \$/acre or \$/bushel. But, to do that you need to know your costs relative to others, especially for specific categories, so that you can focus your efforts to continually improve management.

What do you get from CHAMP?

Each participating business gets a member report showing how it stands relative to the group as a whole. An example of that report (pdf format) from the 2000 year can be downloaded at CHAMP's website. Notice that individual cost categories are reported so participants can see where best to focus management to increase profits. **All individual numbers are strictly confidential** – viewed only by Dhuyvetter, Kastens, and their assistants.

Each participating business also receives a detailed written and illustrated report that generalizes information gathered in the surveys. Previous years' reports are available as pdf file downloads at CHAMP's website. Typically, at USCHI's Annual Meeting, Dhuyvetter and Kastens have provided a presentation and discussion around this report to those interested.

Also, Dhuyvetter and Kastens have typically met with most CHAMP members individually for 15 to 30 minutes at USCHI's Annual Meeting. This setting allows the K-State duo to better understand individual harvesting businesses and answer individual firm management questions. These one-on-one meetings have been highly regarded by CHAMP members in previous years.

As only a sample, evidence has emerged that CHAMP has helped harvesters with loan negotiations (agricultural lenders are comfortable analyzing farms but lack information about custom harvesting businesses) and with negotiating harvesting rates charged farmers when yields and crop prices are low (your operation's costs don't fall when crop prices are low).

Champ membership and cost

Custom harvesting firms that pay the required fees and return the informational survey forms in a timely manner are considered CHAMP members – for that harvest year. As in 2000, Kastens and Dhuyvetter have agreed to conduct the 2001 harvest year CHAMP program for the following compensation: \$8,700 fixed charge plus \$225 per CHAMP member. John Deere has again agreed to cover the \$8,700 charge. For the 2001 harvest year, USCHI is again covering \$75 of the \$225 participant charge – for any CHAMP members who are also USCHI members. The \$225 CHAMP membership fee for the 2001 harvest year (\$150 if you are a USCHI member) should be remitted to AgAnalysis+ with your completed survey forms – as a check payable to AgAnalysis+.

Advisory committee (custom harvesters)

Initially, an advisory committee was formed to ensure that the CHAMP program meets the goals of its participants, to serve as a liaison between program participants and USCHI, and to help answer questions arising from Kastens and Dhuyvetter or from prospective program participants. As CHAMP grows, a committee selection process will be formalized. The initial advisory committee consisted of these people:

Rick Farris (785-899-2652)	Jim Deibert (785-462-7693)
Eldon Roseman (660-442-3978)	Lance Frederick (316-534-2211)
Scott Payne (308-882-4490)	Myron Eberts (701-677-5534)
Lee Lancaster (316-227-2221)	

How to participate for the 2001 harvest year

- Step 1: Download the 2001 Harvest Year Survey Instructions (pdf)
- Step 2: Download the 2001 Harvest Year Survey Forms (pdf)
- Step 3: Download the 2001 Survey Example (pdf) if you need it
- Step 4: Print the necessary information on your printer
- Step 5: Complete all survey forms for your business (a total of 7 forms: Information Page and Schedules A through F)
- Step 6: Mail the 7 completed forms to **AgAnalysis+, c/o Kevin Dhuyvetter, 1808 Cedar Crest Drive, Manhattan, Kansas 66503 – by FEBRUARY 10, 2002**. Include a check payable to AgAnalysis+ for \$225 (\$150 if a USCHI member).

General Survey Instructions

Completing this survey will take commitment and time on your part. However, after completing your first one, future surveys will be less strenuous, as your accounting system and this survey's requirements become better aligned. If you choose to participate, take notes of how the reported numbers were extracted from your accounting system. This will help immensely if questions arise or if you choose to participate in future years. Also, make copies for yourself of any information you send in (in case follow-up communications are needed). Although some of the information gathered for this survey is useful for income tax preparation, **you do not need to have your income taxes done to complete this survey.**

To ensure consistency across respondents and minimize follow-ups please read these instructions and the footnotes in the survey carefully. If you need extra space on any of the forms just make copies or continue on a blank piece of paper. Use a pencil to fill out the survey because you'll likely be erasing a lot. If you know a value is 0, put in 0. If you are not sure and cannot make a reasonable estimate, leave it blank. Where dollar values are required, estimates to the dollar are sufficient.

If you have any questions regarding this survey, such as how unusual situations (not described in these instructions) are to be reported, do not hesitate to call Terry Kastens or Kevin Dhuyvetter. But, if possible, don't wait until the last minute. Both of us are extension economists who get especially busy with farmer meetings etc. during the January/February time period, which means we may be hard to reach. To help answer your questions you should also consider calling other custom harvesters involved in this program. That will have an additional benefit in that it will help build the consensus needed for the survey to become ever better over the years.

DEADLINE IS FEBRUARY 10, 2002

In order to use your information in the reports at the spring annual meeting, we need your response by February 10, 2002. **Do not wait until after your income taxes are done**, that will likely be too late. If you cannot make the deadline, call and we'll try to work something out.

Send your completed survey (be sure to make a copy for yourself) to:

AgAnalysis+
c/o Kevin Dhuyvetter
1808 Cedar Crest Drive
Manhattan, KS 66503

Outside Businesses other than Custom Harvesting

Many of you run other businesses besides custom harvesting, such as farming or grain trucking, yet combine the various businesses within your overall accounting system. If you report costs and revenues for your other businesses along with those from your custom harvesting business, and others do not, it would be difficult to make meaningful comparisons. Consequently, because the focus of this survey is only on the custom harvesting business, you may need to do some prorating of assets, liabilities, costs, and revenues to your custom harvesting business. In that case, it should be easiest to first lay out the accounting categories for your overall business. Then, pull out those categories that exclusively belong to the custom harvesting business. Next, for those categories which cannot be easily separated by business, prorate them across your businesses (or at least between the *custom harvesting* business and *everything*

else). Be sure to note to yourself the process you use this year to make it easier next year. A good check is that the net worth for the *custom harvesting* business and for *everything else* each appears reasonable. DON'T WORRY YOURSELF NEEDLESSLY HERE. If you are unsure how to prorate accounts, do what seems reasonable. The process will improve over time.

Two Custom Harvesting Businesses Operating Together

For two harvesting businesses that typically harvest together here is a suggestion. If expenses are tracked separately for the two businesses, then it is probably best to treat the two businesses as separate CHAMP members – each firm should fill out the forms. On the other hand, if expenses are paid from a common checking account and perhaps prorated at the end of the season (or prorated throughout year, like what might be done on the revenue side), then it is probably okay to treat the two businesses as a single CHAMP member. Of course, the two businesses would likely learn more in a two-member setting. For example, even if all revenue and expenses are merely prorated to the two businesses during or at the end of the year, the two firms likely have different asset and debt bases. Comparing profitability (such as return on assets or return on equity) across the two members might suggest deficiencies in accounting practices or might lead to revisiting their agreement specifying revenue and cost prorations.

Detailed Survey Instructions

The survey has several pages: a) an INFORMATION page, b) a COMBINE page, c) a PLATFORM page, d) a NON-COMBINE page, e) a REVENUE page, f) a BALANCE SHEETS page, and g) a PARTIAL CASH FLOW STATEMENT. Each page has one or more explanatory footnotes. Please take time to read the footnotes as well as these instructions. Following are more detailed instructions for each of the pages or sections. Part of the survey deals with a harvest “season,” which is more-or-less May through December. Generally, you should include crops harvested in January as part of the previous year’s season. But, because little harvesting occurs in January, errors would not be great if you choose to report that revenue in the following year. If you have any questions about how a particular form should be filled out, as in what number goes where, don’t hesitate to call Kastens or Dhuyvetter.

To help guide respondents in filling out the forms, a completed survey and descriptive narrative for an example custom harvesting firm (ACH – Acme Custom Harvesting) is available as a pdf download at CHAMP’s website.

Information Page

This page is straightforward after examining the ACH example.

Combine Page

Each and every combine owned or operated (includes leased and rented machines) in the January 1 through December 31 time period of this year should be reported on this page – even if they were traded prior to the harvest run. Each combine should be on a separate row on this page. Each combine’s value should consider that it has **one and only one** standard grain platform coupled with it (other platforms are listed on a separate page). If a firm operates with no standard grain platforms, then that column should be left blank on this page.

One difficulty with this page might be with “own, lease, or rent.” Here, leasing means a set payment for the year over a set number of years, with a potential purchase option at the end. Renting involves paying an hourly fee (sometimes a minimum number of hours is required). To help us understand your entries, feel free to add additional descriptive text if you want.

On this page there are four columns that deal with valuing combines: a) Jan.1, b) when purchased if purchased during year, c) when sold if sold during year, and d) Dec.31. Generally, each owned combine should have two and only two of the four value columns filled in (but see the exception in the following paragraph). A combine that was owned as of Jan.1 and still owned on Dec.31 would have values in those two columns. The value-when-purchased and value-when-sold columns would be blank or NA. For a combine purchased after Jan.1, but still owned Dec.31, only the value-when-purchased and Dec.31 columns would have values. A combine purchased after Jan.1 but traded off before Dec.31 would have only the value-when-purchased and value-when-sold columns filled in.

If you have a major UNUSUAL repair expenditure that substantially increases a machine’s value (e.g, refurbishing a combine, tractor, or truck), you might wish to capitalize that expenditure. That is, you should not count it as repairs on the Cash Flow Page, but rather report it as a “purchase” on the appropriate page where machinery is valued. For example, suppose you spent \$30,000 on a combine for a major but unusual repair (e.g., fixing it up after it was wrecked). If the combine was owned both Jan. 1 and Dec. 31 (not like those shown in the example) then the \$30,000 should be reported in the “value when purchased if purchased during year” column. The Dec. 31 market value may be higher or lower than the Jan. 1 value, depending on your assessment. Likewise, if the \$30,000 repair was on the first combine reported in the ACH example (‘98 JD 9610), it should also be reported in the “value when purchased if purchased during year” column. If the repair was for the third combine (‘00 JD 9650), then \$30,000 should be added to the \$125,000 in the purchase column, making it \$155,000. If the repair was covered by insurance be sure to adjust “other revenue” up accordingly on the Cash Flow Page.

DO NOT PUT A VALUE ON LEASED OR RENTED COMBINES. That is, none of the four value columns should contain numerical entries for rows corresponding to leased or rented machines. However, such combines do need the other information filled out (and do not forget to include any lease/rent payments on the Partial Cash Flow page).

NO EQUIPMENT VALUES ARE INCOME TAX BASIS VALUES; rather they are market values. The value of a machine when it is bought or sold is what it would have been worth had it been bought or sold outright. **THE BOOT YOU PAY IN A TRADE SHOULD NEVER BE REPORTED ANYWHERE IN THIS SURVEY.** But, if you know what a new combine would cost outright, you can subtract boot to get at market value of the machine traded in. Essentially, market value is that price you would expect to get in either a trade or in an orderly quitting business sale, say one that might take 2-3 months (allowing time for ads etc.).

Additional Platform Page

Values and descriptive details for all platforms *other than* the ones included with the combines reported on the Combine page are reported on this page. Valuation instructions are the same as those in the immediately preceding section describing the Combine Page. Remember that values for leased or rented platforms should not be included anywhere but rent/lease payments need to be included on the Partial Cash Flow page.

Non-combine Equipment Page

This page is similar to the Combine page and Additional Platform page (see the valuation discussion there), only it deals with all harvesting equipment *other than* combines. Fill in numbers that are pertinent for the item in question. For example, trucks would typically have miles reported whereas tractors have hours.

The value of each semi truck listed in the top half of this page should include one and only one grain trailer. Other grain trailers are reported in the bottom half of this page. Although many items will inevitably need to be grouped together, try especially to list tractors used on grain carts individually, so that we can begin to analyze the trucking aspects of custom harvesting operations more thoroughly.

The bottom row in this entry table asks only for “beginning season” and “ending season” values for miscellaneous equipment such as mobile homes, etc. Remember that all dollar values are market, not income tax values. Also, lease/rented equipment is not valued, but be sure to include the rent/lease payments on the Cash Flow page. To get started accurately, in the first year of completing this survey, try to estimate equipment’s market value as accurately as possible (looking up used equipment values in magazines such as the High Plains Journal).

Revenue Page

This page asks that you break down all harvesting revenue by state and by crop (starting with the 1999 harvest year we no longer requested breakouts by irrigated vs. dryland). It can be broken out more finely than that but it must at least be broken out by state and by crop.

If harvesting is done on a per-bushel basis only, as is sometimes the case for irrigated corn, it is imperative that you make an estimate of the number of acres harvested. If harvesting is done on a per-acre basis only, as might be the case for wheat in North Dakota, it is imperative that you make an estimate of the number of bushels harvested. Either way, we need your best estimates for both acres and bushels for each line in the Revenue page. Although we are demanding an estimate of bushels and acres, we do not necessarily have to have an estimated breakout of combine and truck revenue (which you probably wouldn’t have in the previous two cases). However, if you can reasonably prorate the harvesting revenue in such cases between combining and trucking that would be helpful.

Where you did not actually receive cash for harvesting services, the cash-equivalent value of those services needs to be included on the Revenue Page anyway. Otherwise, when *your* custom harvesting business is compared to others in terms of cost per unit of revenue, it will appear less economically efficient than it really is. As an example of how to deal with this, if you harvested crops on your own farm without pay, you need to add revenue to this page equal to what you would have been paid if your farm was a normal customer. Assuming the costs associated with such harvesting were included in your normal operating costs, no other adjustments are needed. Technically, this non-cash *revenue* would be offset by a similar non-cash *cost* incurred by your *farm*, and should ultimately be reflected in your end-of-year proration of net worth between the custom harvesting business and outside businesses. The important point is that if your custom harvesting business incurs the costs associated with harvesting on your own farm but does not incur the revenue, you will understate the profitability of your custom harvesting business and overstate the profitability of outside businesses.

Harvesting for an employee in lieu of wages is an example where offsetting cost adjustments within the custom harvesting accounts are required. Here, you should increase harvesting revenue and

correspondingly increase unpaid labor in the Cash Flow page.

If you have harvesting revenue earned in your last harvest run but not yet collected as of Dec. 31, that earned revenue should be included here. However, if the monies are not collectable it's probably best to "write them off" now and not include them on the Revenue page. It is doubtful that would cause much distortion overall. The point to all this is that the Revenue Page should be a reasonable listing of harvesting revenue earned in the most recent harvest year.

As one more example, if you traded harvesting revenue for fuel (as some of you may do to avoid establishing credit at a local fuel supplier), then you should increase harvesting revenue accordingly and correspondingly increase fuel in the Cash Flow page.

Balance Sheet

Ultimately, we need to get at changes in net worth because it allows comparison with other industries and helps harvesters make business entry and exit decisions. Consequently, each category in the Balance Sheet asks for a Jan. 1 value and a Dec. 31 value. Try to estimate these as accurately as possible. Once you have been involved in this program for a year you can simply pull last year's Dec. 31 numbers into this year's Jan. 1 spots.

Pay special attention to accounts payable and accounts receivable, noting to yourself the types of accounts you have included so that your process will be consistent from one year to the next.

Also, be sure to figure accrued interest on all loans, because accrued interest may vary widely across firms if they make loan payments at different times of the year. Accrued interest is simply loan principal times interest rate times number of days since interest was last paid up, divided by 365. For example, suppose the remaining balance on a 9% interest loan was \$100,000 after the most recent annual payment was made on March 1. The accrued interest as of Dec. 31 is $\$100,000 \times 0.09 \times 306/365 = \$7,545$. Of course, you could just call your lender to figure accrued interest.

Value of machinery and equipment is market value, not income tax basis, and is pulled directly from the Combine, Additional Platform, and Non-combine pages. You are encouraged to make a detailed list for yourself of all equipment and machinery, and corresponding market values (much of that is already done in the Combine, Additional Platform, and Non-combine pages). Doing that will simplify next year's work.

To be consistent with the majority of people filling out the survey, DO NOT report accrued income taxes for your business anywhere in this survey. However, federal or state withholding amounts still owed on labor should be reported in accounts payable.

Complete any totals requested in the Balance Sheet to help you assess if the numbers appear reasonable. At E8 report net investments in other businesses (such as a farm) and non-business investments (such as your residence). Note that these are *net* investments (assets - liabilities = net investment). If you have previously split out custom harvesting from a combined accounting system, this is where *everything else* is reported. If you keep a separate set of books for non-custom-harvesting businesses, report their net worth here anyway. Once again, don't worry about getting this number perfect. Mostly, this section is included to help you with making reasonable proration of assets and liabilities to your custom harvesting business. However, these outside-investment values will also help us determine how important other business are to your long-run profitability.

Partial Cash Flow Statement

A cash flow statement is not a point-in-time snapshot like the balance sheet. Rather, it is a statement of money flows (in this case it includes cash equivalents as well) over the course of a year. Depending on how you do your books, much of the information here will have to be prepared for your income tax return's Schedule F or C. But, don't wait until your taxes are done as that will likely be too late for this survey. Make your estimates as accurately as you can, with the idea that the process will become more accurate over time. It will take some adjusting, but try to fit each and every one of your cash business expenses into the Partial Cash Flow Statement category that most closely matches your accounting category. There are 3 exceptions: **principal payments, interest payments, and income taxes are intentionally omitted. DO NOT INCLUDE THESE 3 MEASURES ANYWHERE IN THIS SURVEY.**

Hired labor includes all taxes, insurances, and fringe benefits associated with those employees who are hired for a wage or salary. Unpaid labor is what it would cost to hire the services for those who are not paid in cash. For example, if the business did not pay you a cash wage then the relevant question is, What would it cost to hire your services for the custom harvesting business? As noted previously, unpaid labor may require some additional adjustments. For example, if an employee was paid by harvesting his crops, you might adjust harvesting revenue up by a reasonable amount, and offset that with a corresponding increase in the unpaid labor slot.

For some harvesting operations, most notably those operating as corporations, operators or principal shareholders are paid a wage just like other employees, with those wages included in the hired labor category, and unpaid labor equal to 0. Although that is normally fine, it can be a problem if principal shareholders/operators are paid excessively in good years and especially low in bad years. If that is the way you treat the hired labor account then you should make adjustments to it when necessary, reflecting the true cost of hiring your labor services for the custom harvesting business. For example, if your firm actually paid you wages of \$80,000 when you are really worth only \$35,000, then \$45,000 needs to be subtracted from the paid labor category, to better represent true labor cost and profitability.

Workmens' comp is to be included in the insurance category.

Repair and maintenance has been split between combines, trucks, and other. If you track only total repair and maintenance, split it up according to your best estimate. Just be sure that all repair and maintenance costs are accounted for.

If another harvester was hired to cut with you and subsequently paid by you rather than by the customer (because you reported revenue for the total job on the Revenue Page), then that cost would be placed in the machine hire category.

Include all rent and lease payments in that category. Do not put loan payments there; they do not go anywhere in this survey. Equipment with lease/rent payments is not valued on balance sheets.