

Kentucky Farm Business Management Program

Annual Summary Data

Kentucky Beef Farms – 2013



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A Special Note to Our Readers

The data for this study are drawn from the detailed financial and production records of producers cooperating with the Kentucky Farm Business Management Program. The data are not drawn from a random sample of farms in the state. However, these data are the most accurate and detailed farm financial data available to researchers and educators. Every attempt has been made to select a set of farms for these research studies which are “typical” operations and have complete financial information available for analysis. These data are carefully cross-checked by our farm management specialists before inclusion in this analysis. It should be noted that farms included in this study are representative of commercial farms producing major commodities and livestock, but not of all farms in Kentucky.

Source of Data

This report presents the summarized 2013 performance data (financial and physical) on 17 Kentucky beef farm businesses for financial purposes and 75 beef herds for production purposes. A beef farm is defined as a farm on which the value of feed fed was more than 40 percent of the crop returns and the beef enterprise utilized more than one-half of the value of feed fed. Some data are presented from previous years so trends and changes can be studied. This is the 47th annual summary of records obtained from farmers participating in the Kentucky Farm Business Management Program. The program is a cooperative effort between the Department of Agricultural Economics of the University of Kentucky and four incorporated Farm Analysis Groups. This program was initiated to improve Kentucky farm management in general and specifically to:

- Provide farmers with an individual farm analysis and comparative analysis of farm business records emphasizing information necessary for sound decision making and wise financial planning;
- Provide farmers with objective counseling in developing priorities and alternative plans;
- Provide the public with basic information about business conditions, as well as costs and returns, on Kentucky farms under current conditions. Provide Kentucky farmers, extension educators, teachers, researchers and lending agencies actual on-farm information about Kentucky farm businesses.

In 2013, 548 farmers on 360 farms were members of the Farm Business Management Program keeping records under the direction of 9 Farm Business Management Specialists. The program serves farmers in 54 counties.

Uses for This Report

Managing a farm business is almost impossible without a complete set of farm records. Records such as those underlying the KFBM program provide the essential information required by lenders and tax preparers, and also provide the means for farmers to fully analyze their businesses. Analyzing this complete record gives an accurate evaluation of how profitable and efficient the business is, indicates the business' weak points and strong points, and provides reliable data (particularly physical production data) for use in planning.

The farm business summaries in this report are used by individual farmers to analyze their business operations and to develop future plans for their farming operations. This report summarizes information so that specialists in agricultural extension, teaching, and research can use the data to enhance their programs. The definition of terms and income and expense measures below may provide assistance in using the data.

Farmers must be able to evaluate changes in their financial position. They must look at the interrelationships of the cash flow, income statement, and balance sheet to evaluate financial

progress. For "real" progress to be made, the business must generate an increase in net worth as measured by a reconciled set of financial statements.

To thoroughly evaluate performance – to learn how the business is progressing – farmers need a record summary that includes considerable detail (i.e., production per person, yields per acre or head, feed conversion rates, etc.), and they must make trend and comparative analysis.

Trend analysis compares the farm's current year record summary with summaries from previous years. It allows farmers to identify trends and changes in their business over time and thereby detect improvements and deteriorations in various parts of the business.

Comparative analysis allows farmers to examine the similarities and differences in business performance between their farm and that of other similar farms. Comparative analysis is an important part of the work that Farm Business Management Specialists conduct with cooperators. The data presented here, however, can be useful to any farmer in Kentucky as a benchmark for performance.

Definition of Terms and Accounting Methods

Sampling Technique

Data from all farm business records certified to be usable for comparative analysis by field staff were aggregated by area, type of farm, size (i.e., tillable acres, number of animal production units, etc.), and management. Illinois Farm Business Farm Management Association's Farm Business Farm Management software was used to compile and summarize the data. A farm is certified as usable if it is a typical operation and all of the information is accurate and error free. It is important to note the farms represented in the KFBM dataset can change from year to year, and that fluctuations within the data could be due changing in participating farms.

Accrual Accounting

Accrual accounting matches the year's cost and returns to the farm's physical production. It differs from cash accounting, which records payments as made and income as received. For KFBM purposes, cash records are adjusted to approximate accrual accounting. Changes in inventories of commodities and livestock, accounts receivable, prepaid expenses, and accounts payable are added to or subtracted from cash income and expense records for the calendar or fiscal year. Accrual accounting provides a more realistic reflection of net farm income for the period as well as more accurate income statements and balance sheets in accordance with Farm Financial Standards Council recommendations.

Expense/Cost Items

Total operating expenses include cash operating expenses plus depreciation plus the net effect on expenses when accounting for the accrual change in accounts payable and prepaid expenses. Cash operating expenses include cash outlays for the following non-depreciable items:

- Fertilizer
- Pesticides
- Seed (including homegrown seed)
- Machinery repairs

- Machinery hire and leases
- Fuel and oil (lubricants)
- Farm share of utilities and light vehicle expenses
- Building repairs
- Drying and storage
- Hired labor
- Livestock expense
- Taxes
- Insurance
- Miscellaneous expenses

Purchased feed, grain and livestock are not included because they are deducted from Gross Revenue to calculate the Value of Farm Production.

Depreciation used here is Economic Depreciation. It is calculated on each item using the Alternative Depreciation System (ADS) under the Modified Accelerated Cost Recovery System of the Internal Revenue Code of 1986. ADS imposes straight line depreciation over a longer cost recovery period than the General Depreciation System and other expense deductions allowed for income tax purposes.

Total interest expense includes cash interest paid on operating and term debt plus the net change in accrued interest on farm business debt.

Interest on equity capital is a charge of 3.15 percent on the current value of land and 4.95 percent on non-land items less total interest expense. It is the opportunity cost of investing in the farm business. The non-land charge is calculated by multiplying 4.95 percent times: 1) the average of the beginning and ending of year value of livestock, economic book value of machinery, and building investment; 2) one-half of the average of the beginning and ending of year balance of inventory items; and 3) one-half of the total year's cash operating expense.

Land Charge Total is the sum of land equity charge, real estate taxes, cash rent, and lease cost. Lease cost is the cost calculated to be paid by the landlord for the operator(s) share of acres paid less costs paid by the operator(s) for the landlord on share crop acres.

Unpaid family and operator labor is the opportunity cost of using the operator's own and unpaid family labor in the farm business. A charge of \$2,755 per month for unpaid operator and family labor is made for each farm. This labor charge is per labor month and is based on unpaid labor of 2,500 hours per year. Part-time family labor is therefore prorated. (Like any other resource, unpaid labor must be accounted for when studying profitability of a farm business).

Revenue Items

Crop returns is the sum of the feed and grain sold, value of all feed fed (except milk), government crop subsidy program payments, and the change in value of feed and grain inventories less the value of crops and feed purchased. Tobacco revenue is excluded from crop returns for this calculation.

Livestock returns above feed is the sum of the sale of livestock and livestock products, value of livestock products consumed, and value of the livestock on hand at the end of the year minus

livestock purchases and the value of the livestock on hand at the beginning of the year minus the cost of all feed fed, whether purchased or raised.

Gross farm returns is the sum of cash and accrued value of sales of farm products and services, government payments, and other farm-related revenue less the cost of purchased feed and livestock, plus the change in inventory value for grain and livestock, plus the value of farm products used. Farm products used are products consumed on farm and not sold. Also called *Value of farm production*.

Net Farm Income is the value of farm production less total operating expenses, less total interest expense plus net gain or loss on machinery and buildings sold. Net Farm Income includes returns to the farm for unpaid family and operator labor, the interest on invested capital, and management. It is the net total earnings to the farm operator(s).

Operator(s) labor and management income is Net Farm Income less the interest charge on equity capital, less the opportunity cost of unpaid family labor. It represents the operators' return to their labor and management.

Management return is the residual after a charge for unpaid operator labor is deducted from operator(s) labor and management income.

Operator-only refers to the revenue, costs, production, and returns that accrue to the farmer(s) involved in the farm's management and NOT that of landlords.

Financial Efficiency Ratios

Expense Ratios are measures of how economically farm businesses operate. Each ratio compares some aspect of expense or Net Farm Income to gross farm returns.

Other Terms Used in this Report

Inventory value of crops and livestock is based on average year-end prices reported for the four KFBM areas in the Kentucky Department of Agriculture Market Reports and the USDA Agricultural Marketing Service reports.

Old Crop is any crop that was produced in a prior year, but inventoried and held for sell in the current year.

New Crop is any crop that was produced in the current year.

Hi 1/3 and Lo 1/3 refer to groupings by management returns. Thirds are the net of Gross Farm Returns less Total Non-Feed Cost.

Operator Acres is owned and cash rented acres plus the operator's share of tillable acres under crop share leases.

Pasture Days is the number of days the operator(s) reported that livestock derived a significant portion of nutrition from pasture. The charge to livestock for pasture days is the

number of days multiplied times the number of animal units involved at a calculated cost of \$0.31/day for producing grass in pasture.

Total Acres Planted – Selected Crops is the total number of acres planted to a particular crop divided by the number of farms that planted that crop for all farms in a particular comparative sort.

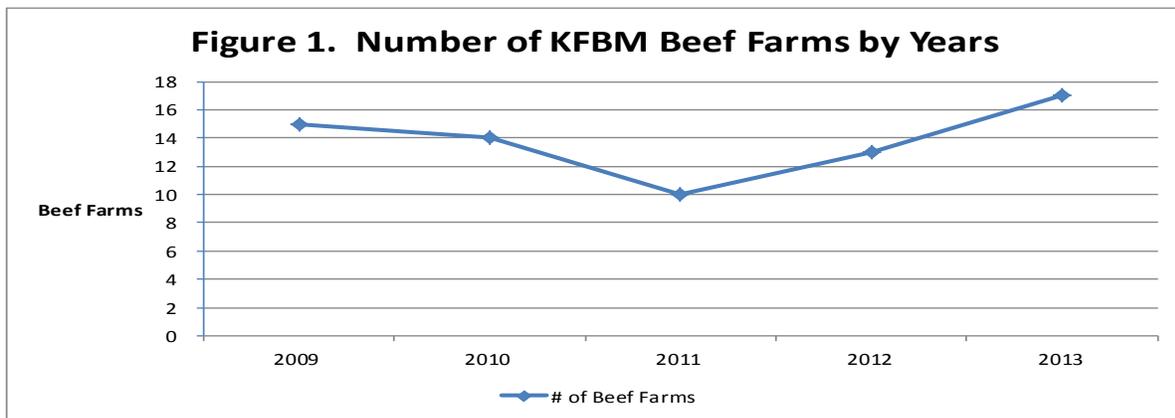
Animal Units – a mature (1,000-pound) cow or the equivalent.

For the purpose of the Kentucky Farm Business Management (KFBM) Program, a cow-calf beef farm is a farming operation on which the value of feed fed was more than 40 percent of the crop returns and the beef enterprise utilized more than one-half of the value of feed fed. By this definition, there were only 17 farms that met the requirements to be considered a beef farm within the 2013 KFBM dataset. There were a total of 75 beef herds in 2013, but the other herds were a smaller proportion of the total farming operation and did not meet the requirements outlined to be considered a “beef” farm. All beef herds were used in calculating returns per cow, production, feed cost, average price and weight in Table 3, but only the 17 beef farms were used in calculating Net Farm Income (NFI), management returns, and financial efficiency ratios in Table 1.

Comparisons between one year and the next are based on the farms included in the average for each year, respectively. Not all farms in one year are necessarily included in any or all of the other years. New farms are added each year and other farms may either retire or not be included in the average for other reasons.

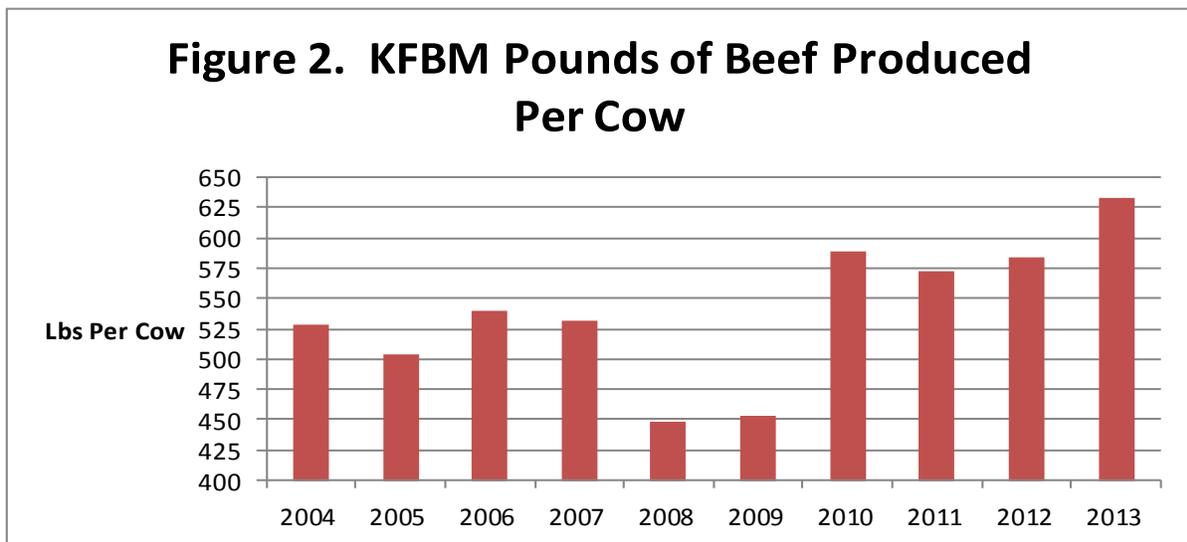
Farm Size and Ownership

In 2013, the number of beef farms studied by the KFBM program increased from 13 to 17, which is the most included in this study in the last five years. This is still well below the 30 farms that were studied in 2007, but after seeing several years of declining numbers we have seen gradual increases over the past two years. In 2013, the 17 beef farms averaged 666 total acres per farm: 403 tillable acres (acres that crops can be grown on) of which 362 were operator acres (acres the farmer receives revenue from). Unlike the Kentucky grain farms contained in the dataset, the majority of the land in a beef farm is owned (51.3%). In 2013, the average Kentucky beef farm cash rented 26.4% and share cropped 22.3% of the total acres. This is a big shift from 2012 when they cash rented 36.5% and share cropped 9.8% (Figure 1, Tables 1 and 2).



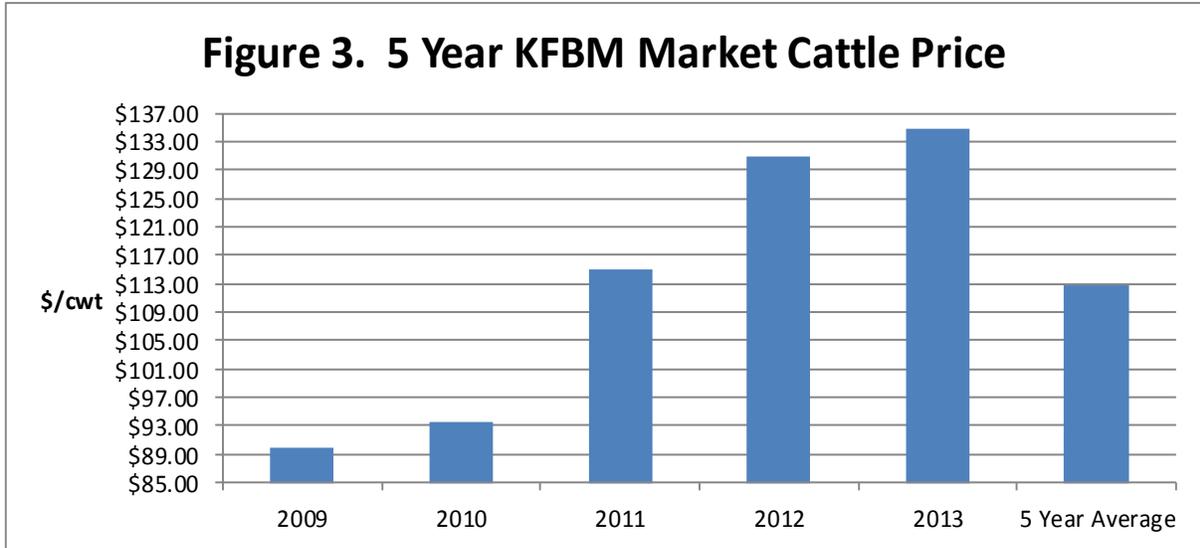
Production

The average beef farm managed 104 cows in 2013, which was a decrease of 8 cows per herd from the 2012 study. The average number of calves born in 2013 was 95 for a 91.1% calving percentage. The average pounds of beef produced per cow was 633, which was the highest in the last ten years. The formula for pounds of production is as follows: weight consumed + death loss weight + sales weight + ending inventory weight - purchased weight - beginning of year inventory weight. Compared to previous years, KFBM beef farmers held calves to a higher selling weight in 2013 and they also retained more heifers to eventually be added to the breeding herd. Note this study may not include all of the same farms from year to year (Figure 2, Tables 3 and 5).

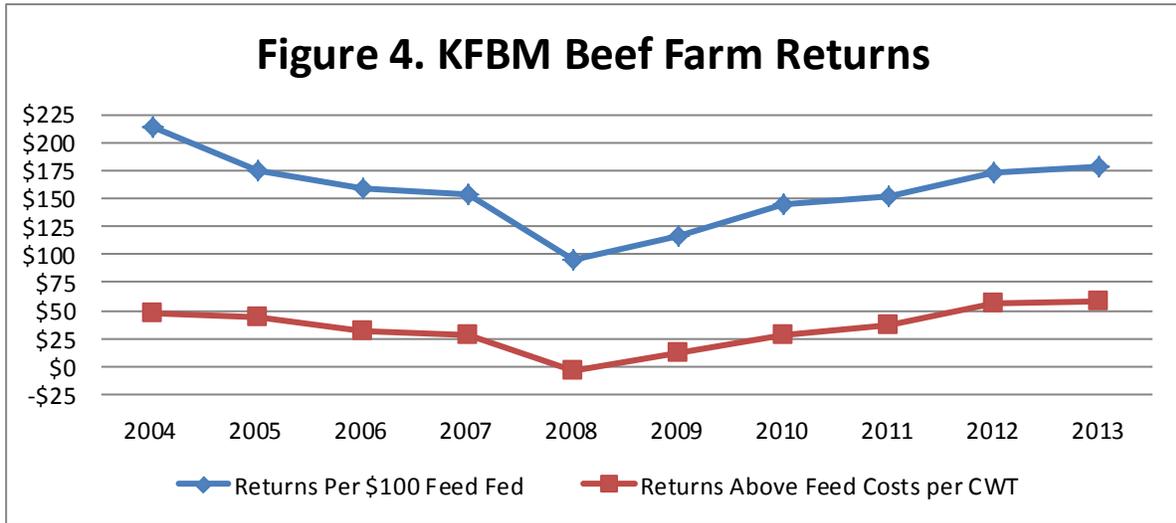


Returns

In 2013, beef farmers continued to see higher prices with the average market price increasing by \$3.80 per cwt from 2012 to \$134.66. This was the highest average price in the last 5 years and represents a \$44.74 per cwt increase from 2009. Market animals were sold at an average weight of 666 pounds, which was an increase from 2012 of 45 pounds and was 51 pounds over the 5 year average. Farmers also received a favorable price for breeding stock sales at \$76.71 per cwt, but this is a decrease of \$2.07 from 2012 (Figure 3, Tables 3 and 4).



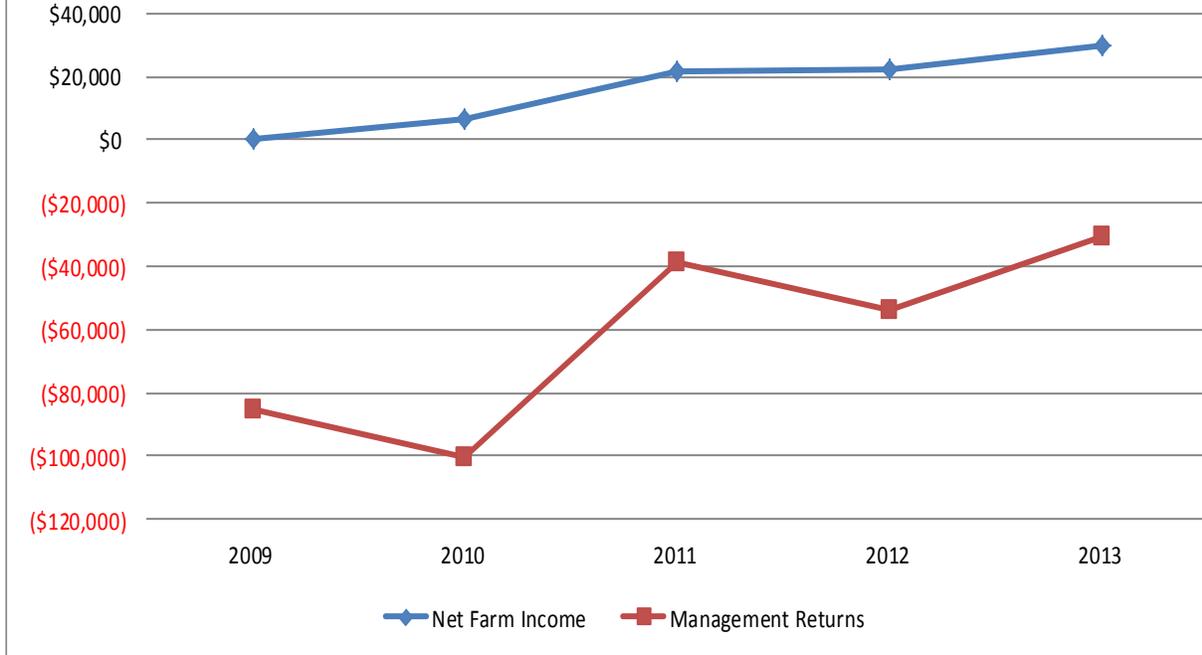
Returns Above Feed Costs (RAFC) and Returns per \$100 of Feed Fed both continued to rise in 2013 compared to previous years. RAFC per cwt rose to \$58.00, which translates to \$353 per cow. This was the highest RAFC per cwt in the last 10 years and was \$33.89 above the 10 year average. Returns per \$100 Feed Fed increased to \$178, which was \$21.90 above the 10 year average and the second highest in the last 10 years (Figure 4, Tables 3 and 5).



Net Farm Income & Management Returns

In 2013, the beef farms in this study had an average Gross Farm Return of \$216,693, which was the fourth highest in the last 10 years, but was \$15,112 above the 10 year average. Operating expenses were the lowest in the last six years and \$4,034 below the 10 year average. Above average returns and below average expenses provided the beef farms in this study with the highest Net Farm Income in the last 10 years, at \$29,794. This was also \$17,330 above the 10 year average for NFI (Figure 5 and Table 2).

Figure 5. KFBM Beef Farm Management Returns and Net Farm Income



Management Returns are what remains after an interest charge on equity capital, an opportunity cost for unpaid family labor, and a charge for unpaid operator labor. In 2013, management returns increased by \$22,997 to -\$30,590. This was the highest in the last 10 years and is \$30,044 higher than the 10 year average. Management Returns continued to be negative largely due to the cost of operator labor (\$2755 per month) and equity capital charge, which is the opportunity charge on land, cattle, equipment and operating expenses. In 2013, the combined charges for unpaid farmer labor (\$25,605) and equity capital (\$34,293) were \$59,898.

The NFI from Operations Ratio (farm operating income divided by gross farm returns) for 2013 was 13.09%. This number increased by 3.63% from 2012 and was the second highest in the last 10 years, but is still insufficient for beef farmers to cover their costs. In the long term, this ratio needs to be closer to 20% and even higher for the farming operation to be sustainable. At the same time, the Operating Expense Ratio (total operating expense excluding interest divided by gross farm returns) has continued to decrease over the last few years to 67.65% in 2013, but most likely needs to be 60% or lower over the long run. In order for this ratio to continue to drop, cooperators should closely examine management practices and work with their KFBM specialist and other advisors to improve areas that may be hindering the operation. This may include re-evaluating where inputs are purchased and whether newer equipment be purchased or older equipment repaired (Figure 6, Tables 1 & 2).

Figure 6. Financial Efficiency Ratios for KFBM Beef Farms

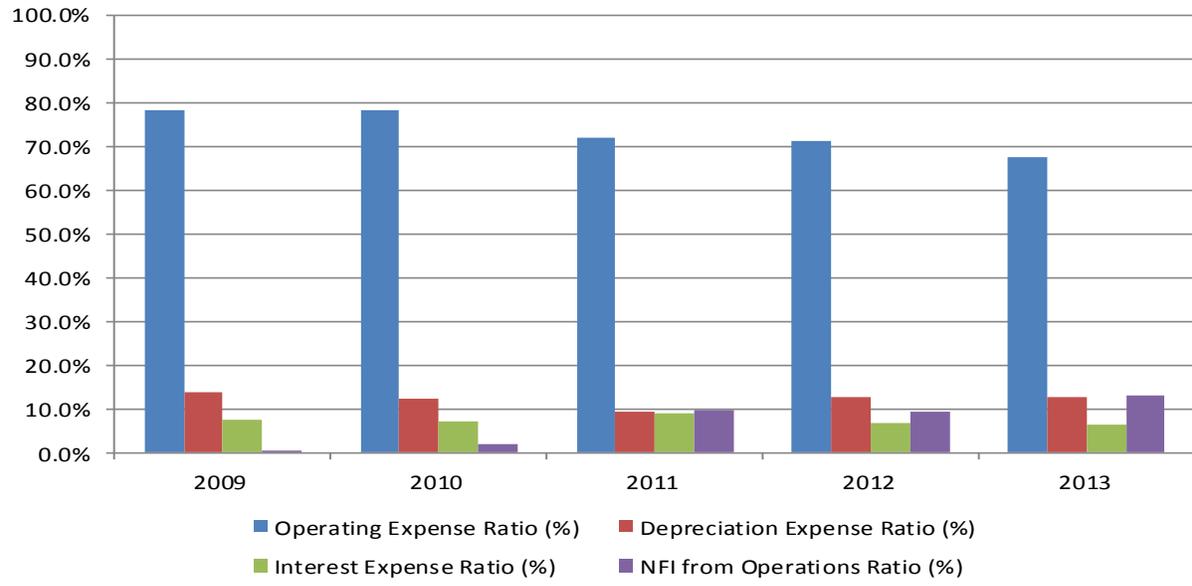


Table 1 - Summary of All Kentucky Farms by Type				
	All Farms	Grain Farms	Beef Farms	Dairy Farms
Range in Size (Acres)	All	All	All	All
Management Returns	All	All	All	All
Number of Farms	268	222	17	22
Total Acres in Farm	2,269	2,564	666	803
Tillable Acres in Farm	2,087	2,404	403	595
Operator Tillable Acres	1,919	2,206	362	591
Percent Land Owned	29.1%	27.7%	51.3%	65.0%
Percent Land Crop Share	23.2%	23.8%	22.3%	1.8%
Percent Land Cash Rent	47.7%	48.5%	26.4%	33.2%
Months of Hired Labor	48.3	52.1	10.3	47.5
Months of Unpaid Labor	17.0	17.6	9.5	18.4
Total Months Labor	65.3	69.7	19.8	65.9
FARM RETURNS				
Total Cash Operating	2,009,750	2,228,463	269,878	1,474,513
Inventory Change	225,012	264,613	27,781	49,630
Accounts Receivable Change	(58,163)	(69,602)	45	(2,137)
Farm Products Used	0	0	0	0
Less Purchased Feed & Grain	114,322	77,629	42,072	481,160
Less Purchased Livestock	11,066	7,543	38,940	28,543
GROSS FARM RETURNS	2,051,211	2,338,302	216,693	1,012,302
FARM COSTS				
Total Cash Operating	1,447,195	1,647,205	158,855	737,940
Farm Products Used	0	0	0	0
Prepaid Expense Change	(45,569)	(54,796)	1,442	(3,280)
Accounts Payable Change	5,622	7,452	310	(2,407)
TOTAL OPERATING EXPENSE	1,407,248	1,599,860	160,607	732,254
INCOME BEFORE DEPRECIATION	643,963	738,442	56,086	280,048
Less Depreciation	178,117	203,464	27,737	78,958
FARM OPERATING INCOME	465,847	534,978	28,349	201,090
Capital Account Adjustment	8,096	9,533	1,445	1,318
NET FARM INCOME (NFI)	473,943	544,511	29,794	202,408
Less Unpaid Family Labor	1,604	1,626	486	2,254
RETURNS TO OPERATOR LABOR				
CAPITAL, & MANAGEMENT	472,339	542,885	29,308	200,154
Less Unpaid Operator Labor	45,236	46,928	25,605	48,463
RETURNS TO EQUITY CAPITAL				
& MANAGEMENT	427,103	495,957	3,703	151,691
Less Equity Capital Charge	128,987	141,396	34,293	89,034
MANAGEMENT RETURNS	298,116	354,561	(30,590)	62,657
FINANCIAL EFFICIENCY RATIOS				
Operating Expense Ratio (%)	65.56%	65.41%	67.65%	68.64%
Depreciation Expense Ratio (%)	8.68%	8.70%	12.80%	7.80%
Interest Expense Ratio (%)	3.05%	3.01%	6.47%	3.70%
NFI from Operations Ratio (%)	22.71%	22.88%	13.08%	19.86%

Table 2 - Historical Summary of KFBM Beef Farms

	2009	2010	2011	2012	2013
Number of Farms	15	14	10	13	17
Total Acres in Farm	807	1031	740	826	666
Tillable Acres in Farm	428	592	364	504	403
Operator Tillable Acres	420	568	345	481	362
Percent Land Owned	67.8%	64.1%	56.1%	53.7%	51.3%
Percent Land Crop Share	4.8%	9.3%	7.3%	9.8%	22.3%
Percent Land Cash Rent	27.3%	26.6%	36.6%	36.5%	26.4%
Months of Hired Labor	15.20	25.54	10.90	15.5	10.3
Months of Unpaid Labor	10.60	12.14	10.90	10.8	9.5
Total Months Labor	25.80	37.68	21.80	26.2	19.8
FARM RETURNS					
Total Cash Operating	\$422,933	\$548,383	\$304,555	\$377,055	\$269,878
Inventory Change	(\$13,786)	(\$19,196)	\$25,442	\$14,781	\$27,781
Accounts Receivable Change	(\$9,458)	(\$714)	\$0	\$877	\$45
Farm Products Used	\$0	\$0	\$0	\$0	\$0
Less Purchased Feed & Grain	\$66,729	\$119,403	\$43,794	\$58,908	\$42,072
Less Purchased Livestock	\$99,271	\$91,611	\$69,701	\$92,005	\$38,940
GROSS FARM RETURNS	\$233,689	\$317,458	\$216,501	\$241,800	\$216,693
FARM COSTS					
Total Cash Operating	\$207,263	\$285,329	\$164,589	\$191,492	\$158,855
Farm Products Used	\$0	\$0	\$0	\$0	\$0
Prepaid Expense Change	\$1,103	(\$12,819)	\$1,357	(\$594)	\$1,442
Accounts Payable Change	(\$7,776)	(\$773)	\$9,235	(\$2,702)	\$310
TOTAL OPERATING EXPENSE	\$200,590	\$271,737	\$175,181	\$188,196	\$160,607
INCOME BEFORE DEPRECIATION	\$33,099	\$45,721	\$41,320	\$53,604	\$56,086
Less Depreciation	\$32,723	\$39,214	\$19,976	\$30,752	\$27,737
FARM OPERATING INCOME	\$376	\$6,508	\$21,344	\$22,852	\$28,349
Capital Account Adjustment	\$109	(\$126)	\$530	(\$511)	\$1,445
NET FARM INCOME (NFI)	\$485	\$6,382	\$21,874	\$22,341	\$29,794
Less Unpaid Family Labor	\$1,837	\$1,181	\$810	\$0	\$486
RETURNS TO OPERATOR LABOR					
CAPITAL, & MANAGEMENT	(\$1,352)	\$5,201	\$21,064	\$22,341	\$29,308
Less Unpaid Operator Labor	\$27,366	\$32,273	\$28,620	\$29,077	\$25,605
RETURNS TO EQUITY CAPITAL					
& MANAGEMENT	(\$28,718)	(\$27,072)	(\$7,556)	(\$6,735)	\$3,703
Less Equity Capital Charge	\$56,389	\$73,359	\$31,101	\$46,852	\$34,293
MANAGEMENT RETURNS	(\$85,107)	(\$100,430)	(\$38,657)	(\$53,587)	(\$30,590)
FINANCIAL EFFICIENCY RATIOS					
Operating Expense Ratio (%)	78.1%	78.2%	72.0%	71.19%	67.65%
Depreciation Expense Ratio (%)	14.0%	12.4%	9.2%	12.72%	12.80%
Interest Expense Ratio (%)	7.7%	7.3%	9.0%	6.64%	6.47%
NFI from Operations Ratio (%)	0.2%	2.0%	9.9%	9.45%	13.08%

Table 3 - KFBM Beef Cow Herds: Production, Returns, and Feed Costs - 2013

	KENTUCKY BEEF HERDS AVERAGE FARM	
	Per Cow	Per CWT Produced
Range in Size (Cows)	All	
Number of Farms	75	
Number of Cows in Herd	104	
Pounds of Beef Produced	633	
Total Returns Per Cow	808	132.75
Value of Grain & Roughage Fed	351	57.67
Value of Supplement Fed	104	17.09
Total Value of Feed Fed	455	74.76
Returns Above Feed Cost	353	58.00
Returns Per \$100 Feed Fed	178	29.24
Total Pounds of Feed Fed		
Grain	201	33
Supplement	289	47
Complete Feed	274	45
Total Concentrates	764	126
Hay and Dry Roughage	5,503	904
Corn Silage	1,711	281
Other Silage	13	2
Pasture Days	363	60
Hay Equivalent (Tons)	7.1	1
Cost / Cwt of Supplement	21.95	4
Cost / Cwt of Concentrates	17.19	3
Pasture Days Per Animal Unit	227	37
Animal Units in Herd	166.6	
Number of Calves Born	95	
Calving %	91.1%	
Number Sold - Market	74	
Weight Per Market Animal Sold	666	
Price Received Per Cwt - Market	134.66	
Number Sold - Breeding	9	
% Cull Rate - Breeding	8.3%	
Weight Per Breeding Animal Sold	1,277	
Price Received Per Cwt - Breeding	76.71	
Death Loss - Total Pounds	3,546	
Death Loss - % Pounds Produced	5.4%	
Market Number	5	
Market Survival Rate %	94.7%	
Breeding Number	3	
Breeding Survival Rate %	97.6%	
Net Farm Income Per Cow	64.70	
Management Returns Per Cow	(66.43)	

Table 4 - KFBM Average Market Beef Prices & Weights, 2009-2013						
	2009	2010	2011	2012	2013	5 Year Average
Average Price Received Per 100 lbs.						
Beef Cows, Calves Sold						
Market Price	\$89.92	\$93.40	\$114.93	\$130.86	\$134.66	\$112.75
Weight Per Market Calf Sold	566	637	585	621	666	615

Table 5. KFBM Historical Beef Production & Returns										
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
# Cows in Herd	92	116	107	122	159	167	119	117	112	104
Number of Calves Born	84	106	101	111	121	132	108	100	97	95
Number Sold - Breeding	13	13	12	17	14	16	15	15	13	9
Number Sold - Market	72	95	77	107	97	133	102	96	92	74
Total Pounds of Beef Produced	48,567	58,295	57,805	64,750	71,183	75,589	69,842	66,686	65,296	65,832
Pounds of Beef Produced per Cow	528	503	540	531	448	453	589	572	583	633
Returns Above Feed Costs per CWT	\$47.95	\$43.11	\$31.11	\$27.98	-\$3.94	\$12.67	\$28.77	\$36.99	\$56.24	\$58.00
Returns Per \$100 Feed Fed	\$213	\$175	\$159	\$154	\$95	\$117	\$145	\$152	\$173	\$178

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