

## Kentucky Farm Business Management Program

### Annual Summary Data

### Kentucky Beef Farms - 2012



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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 2012 performance data (financial and physical) on 13 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 46<sup>th</sup> 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 2012, 493 farmers on 321 were members of the Farm Business Management Program keeping records under the direction of 8 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 to this change of sample.

### **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 3.5 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 \$2,700 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.

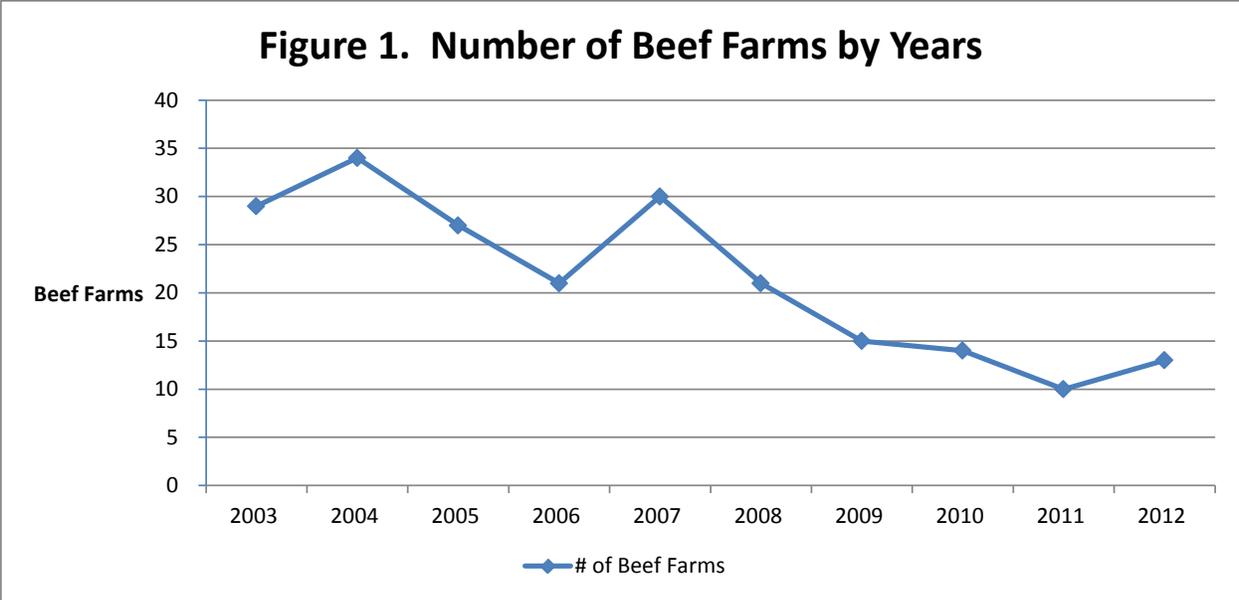
*Animal Units* – a mature (1,000-pound) cow or the equivalent.

For the purpose of the Kentucky Farm Business Management (KFBM) Program, a 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 13 farms that met the requirements to be considered a beef farm within the 2012 KFBM dataset. There were a total of 75 beef herds in 2012, 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 13 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.

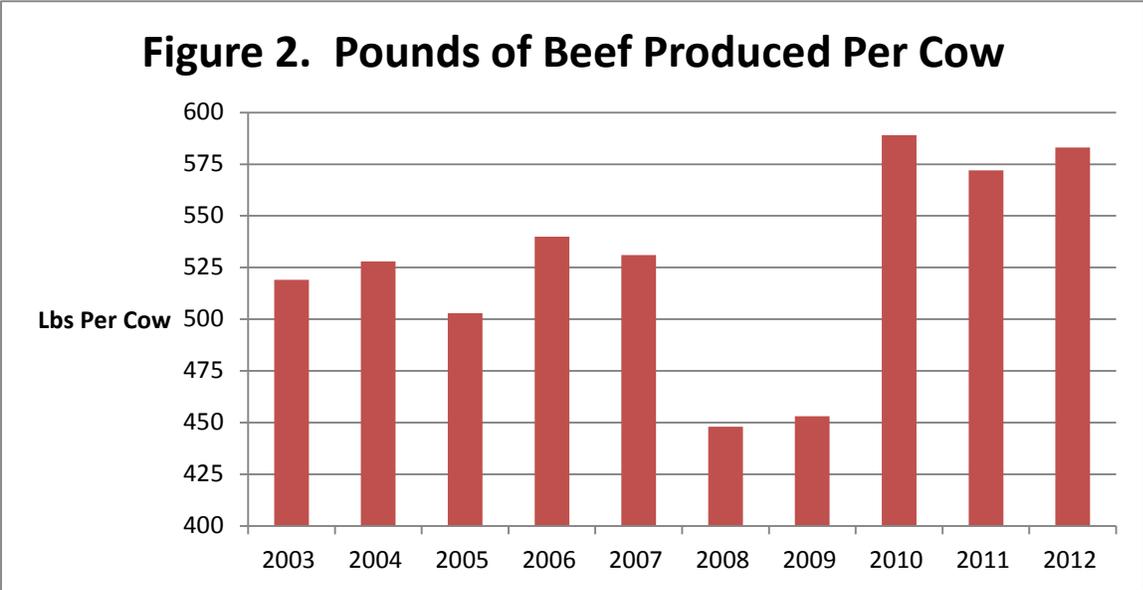
### **Farm Size and Ownership**

In 2012, the number of beef farms studied by the KFBM program increased from 10 to 13, which is still well below the 30 farms that were studied in 2007. However, this may be due in part to some of the farms counted in 2007 no longer meeting the KFBM requirements of a beef farm as other enterprises may have increased in value. All farms represented in the dataset must have accurate and typical information to be included. In 2012, the 13 beef farms averaged 826 total acres per farm: 504 tillable acres (acres that crops can be grown on) of which 481 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 (53.7%). In 2012, the average Kentucky beef farm cash rented 36.5% and share cropped 9.8% of the total acres (Figure 1, Tables 1 and 2).



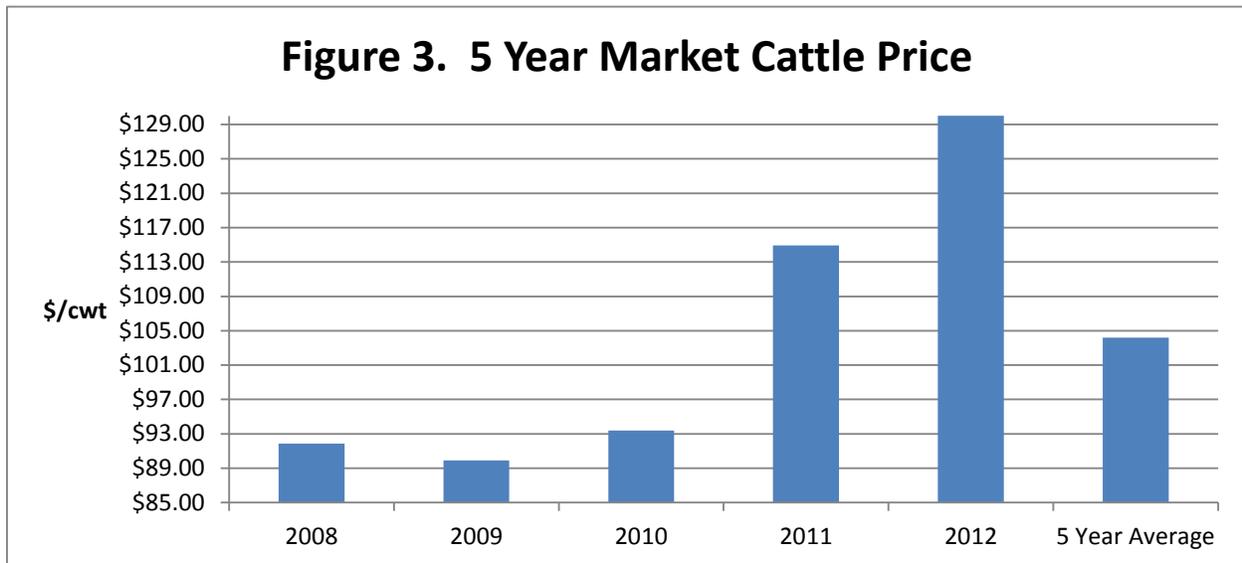
**Production**

The average beef farm managed 112 cows in 2012, which was a decrease of 5 cows per herd from the 2011 study. The average number of calves born in 2012 was 97 for an 86.5% calving percentage. The average pounds of beef produced per cow was 583, which was the second highest in the last ten years. The pounds of production are determined by adding the weight consumed, death loss weight, sales weight, and the ending inventory weight. Then, subtract the purchased weight and the beginning of year inventory weight. Note this study may not include all of the same farms from year to year (Figure 2, Tables 3 and 5).



## Returns

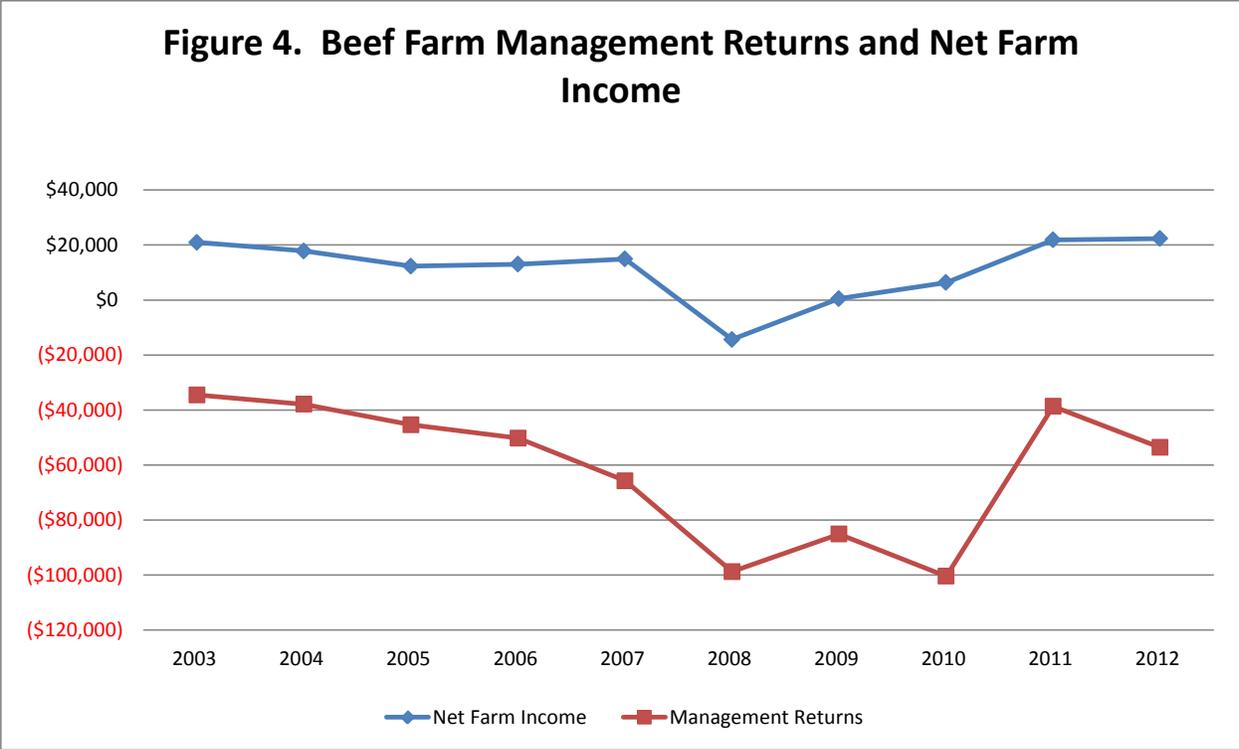
In 2012, beef farmers continued to see higher prices with the average market price increasing by \$15.93 per cwt from 2011 to \$130.86. This was the highest average price in the last 5 years and represents a \$40.94 per cwt increase from 2009. Market animals were sold at an average weight of 621 pounds, which was an increase from 2011 of 36 pounds and was 2 pounds over the 5 year average. Farmers also received a favorable price for breeding stock sales at \$78.58 per cwt, an increase of \$15.24 from 2011 (Figure 3, Tables 3 and 4).



Returns Above Feed Costs (RAFC) and Returns per \$100 of Feed Fed both continued to rise in 2012 compared to previous years. RAFC per cwt rose to \$52.27, which translates to \$304 per cow. This was the highest RAFC per cwt in the last 10 years and was \$21.33 above the 10 year average. Returns per \$100 Feed Fed increased to \$169, which was \$13 above the 10 year average and the third highest in the last 10 years (Tables 3 and 5).

## Net Farm Income & Management Returns

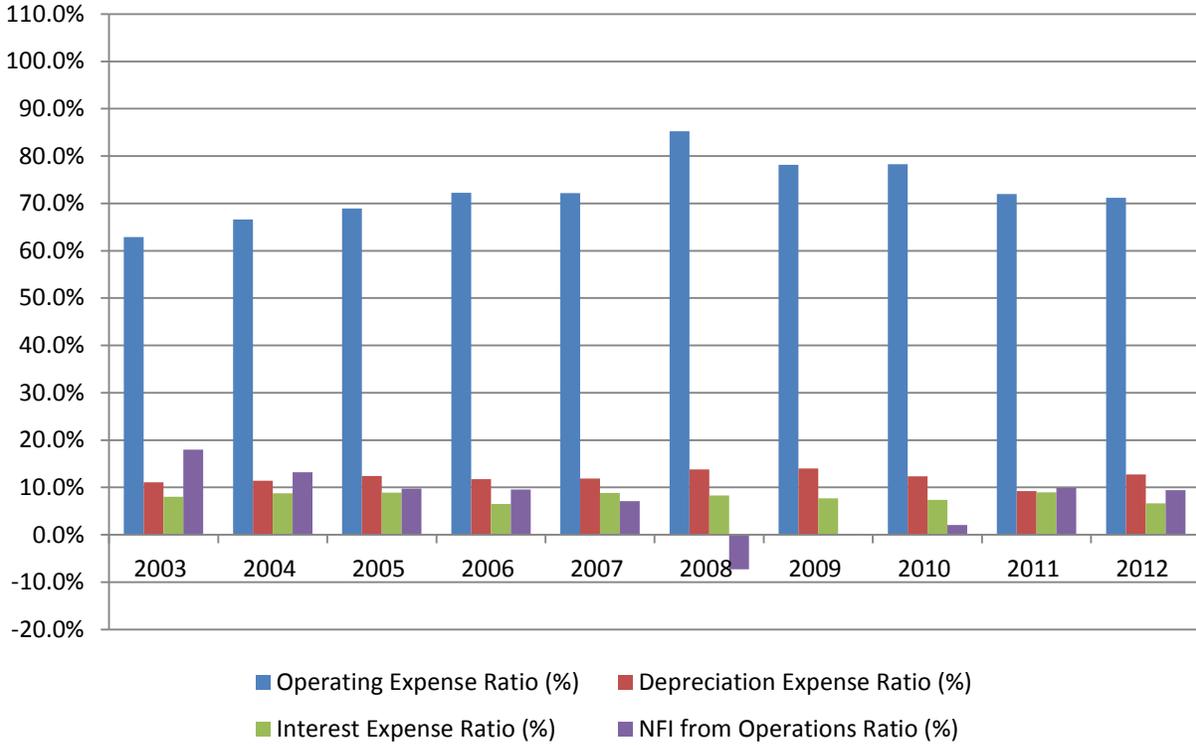
In 2012, the beef farms in this study had an average NFI of \$22,341. This was the highest of any KFBM beef study in the last 10 years. Gross Farm Returns were the second highest in the last 10 years, behind only 2009. However, lower operating expenses and depreciation provided for a greater NFI (Figure 4 and Table 2).



Management Returns decreased by \$14,930 in 2012 to -\$53,587, but still marked the second best year since 2006. Management Returns continued to be negative largely due to the cost of operator labor and equity capital charge. In 2012, the combined charges for unpaid farmer labor (\$29,077) and equity capital (\$46,852) were \$75,929, which exceeded NFI by \$22,342.

The NFI from Operations Ratio (farm operating income divided by gross farm returns) for 2012 was 9.45%. This number decreased slightly from 2011, but was the second highest since 2006 and 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 decreased in the last few years to 71.19% in 2012, 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 specialist to improve areas that may be hindering the operation. This may include re-evaluating where inputs are purchased and should newer equipment be purchased or should the older equipment be repaired (Figure 5, Tables 1 & 2).

**Figure 5. Financial Efficiency Ratios for KFBM Beef Farms**



<b>Table 1 - Summary of Kentucky Beef Farms</b>		
Range in Size (Acres)		All
Management Returns		All
Number of Farms		13
Total Acres in Farm		826
Tillable Acres in Farm		504
Operator Tillable Acres		481
Percent Land Owned		53.7%
Percent Land Crop Share		9.8%
Percent Land Cash Rent		36.5%
Months of Hired Labor		15.5
Months of Unpaid Labor		10.8
Total Months Labor		26.2
<b>FARM RETURNS</b>		
Total Cash Operating		\$377,055
Inventory Change		\$14,781
Accounts Receivable Change		\$877
Farm Products Used		\$0
Less Purchased Feed & Grain		\$58,908
Less Purchased Livestock		\$92,005
<b>GROSS FARM RETURNS</b>		<b>\$241,800</b>
<b>FARM COSTS</b>		
Total Cash Operating		\$191,492
Farm Products Used		\$0
Prepaid Expense Change		(\$594)
Accounts Payable Change		(\$2,702)
<b>TOTAL OPERATING EXPENSE</b>		<b>\$188,196</b>
<b>INCOME BEFORE DEPRECIATION</b>		<b>\$53,604</b>
Less Depreciation		\$30,752
<b>FARM OPERATING INCOME</b>		<b>\$22,852</b>
Capital Account Adjustment		(\$511)
<b>NET FARM INCOME (NFI)</b>		<b>\$22,341</b>
Less Unpaid Family Labor		\$0
<b>RETURNS TO OPERATOR LABOR</b>		
<b>CAPITAL, &amp; MANAGEMENT</b>		<b>\$22,341</b>
Less Unpaid Operator Labor		\$29,077
<b>RETURNS TO EQUITY CAPITAL</b>		
<b>&amp; MANAGEMENT</b>		<b>(\$6,735)</b>
Less Equity Capital Charge		\$46,852
<b>MANAGEMENT RETURNS</b>		<b>(\$53,587)</b>
<b>FINANCIAL EFFICIENCY RATIOS</b>		
Operating Expense Ratio (%)		71.19%
Depreciation Expense Ratio (%)		12.72%
Interest Expense Ratio (%)		6.64%
NFI from Operations Ratio (%)		9.45%

**Table 2 - Historical Summary of Kentucky Beef Farms**

	2008	2009	2010	2011	2012
Number of Farms	21	15	14	10	13
Total Acres in Farm	912	807	1031	740	826
Tillable Acres in Farm	499	428	592	364	504
Operator Tillable Acres	468	420	568	345	481
Percent Land Owned	50.2%	67.8%	64.1%	56.1%	53.7%
Percent Land Crop Share	9.8%	4.8%	9.3%	7.3%	9.8%
Percent Land Cash Rent	40.0%	27.3%	26.6%	36.6%	36.5%
Months of Hired Labor	16.70	15.20	25.54	10.90	15.5
Months of Unpaid Labor	12.00	10.60	12.14	10.90	10.8
Total Months Labor	28.70	25.80	37.68	21.80	26.2
<b>FARM RETURNS</b>					
Total Cash Operating	\$303,143	\$422,933	\$548,383	\$304,555	\$377,055
Inventory Change	(\$40)	(\$13,786)	(\$19,196)	\$25,442	\$14,781
Accounts Receivable Change	\$475	(\$9,458)	(\$714)	\$0	\$877
Farm Products Used	\$0	\$0	\$0	\$0	\$0
Less Purchased Feed & Grain	\$46,058	\$66,729	\$119,403	\$43,794	\$58,908
Less Purchased Livestock	\$58,386	\$99,271	\$91,611	\$69,701	\$92,005
<b>GROSS FARM RETURNS</b>	<b>\$199,133</b>	<b>\$233,689</b>	<b>\$317,458</b>	<b>\$216,501</b>	<b>\$241,800</b>
<b>FARM COSTS</b>					
Total Cash Operating	\$182,392	\$207,263	\$285,329	\$164,589	\$191,492
Farm Products Used	\$0	\$0	\$0	\$0	\$0
Prepaid Expense Change	\$957	\$1,103	(\$12,819)	\$1,357	(\$594)
Accounts Payable Change	\$2,873	(\$7,776)	(\$773)	\$9,235	(\$2,702)
<b>TOTAL OPERATING EXPENSE</b>	<b>\$186,222</b>	<b>\$200,590</b>	<b>\$271,737</b>	<b>\$175,181</b>	<b>\$188,196</b>
INCOME BEFORE DEPRECIATIO	\$12,911	\$33,099	\$45,721	\$41,320	\$53,604
Less Depreciation	\$27,506	\$32,723	\$39,214	\$19,976	\$30,752
<b>FARM OPERATING INCOME</b>	<b>(\$14,595)</b>	<b>\$376</b>	<b>\$6,508</b>	<b>\$21,344</b>	<b>\$22,852</b>
Capital Account Adjustment	\$276	\$109	(\$126)	\$530	(\$511)
<b>NET FARM INCOME (NFI)</b>	<b>(\$14,318)</b>	<b>\$485</b>	<b>\$6,382</b>	<b>\$21,874</b>	<b>\$22,341</b>
Less Unpaid Family Labor	\$1,312	\$1,837	\$1,181	\$810	\$0
<b>RETURNS TO OPERATOR LABOR</b>					
CAPITAL, & MANAGEMENT	(\$15,630)	(\$1,352)	\$5,201	\$21,064	\$22,341
Less Unpaid Operator Labor	\$31,617	\$27,366	\$32,273	\$28,620	\$29,077
<b>RETURNS TO EQUITY CAPITAL</b>					
& MANAGEMENT	(\$47,247)	(\$28,718)	(\$27,072)	(\$7,556)	(\$6,735)
Less Equity Capital Charge	\$51,498	\$56,389	\$73,359	\$31,101	\$46,852
<b>MANAGEMENT RETURNS</b>	<b>(\$98,746)</b>	<b>(\$85,107)</b>	<b>(\$100,430)</b>	<b>(\$38,657)</b>	<b>(\$53,587)</b>
<b>FINANCIAL EFFICIENCY RATIOS</b>					
Operating Expense Ratio (%)	85.2%	78.1%	78.2%	72.0%	71.19%
Depreciation Expense Ratio (%)	13.8%	14.0%	12.4%	9.2%	12.72%
Interest Expense Ratio (%)	8.3%	7.7%	7.3%	9.0%	6.64%
NFI from Operations Ratio (%)	-7.3%	0.2%	2.0%	9.9%	9.45%

**Table 3 - Beef Cow Herds: Production, Returns, and Feed Costs - 2012**

	KENTUCKY BEEF HERDS AVERAGE FARM	
	Per Cow	Per CWT Produced
Range in Size (Cows)	All	
Number of Farms	75	
Number of Cows in Herd	112	
Pounds of Beef Produced	583	
Total Returns Per Cow	764	133.43
Value of Grain & Roughage Fed	347	60.55
Value of Supplement Fed	95	16.67
<b>Total Value of Feed Fed</b>	<b>442</b>	<b>77.22</b>
Returns Above Feed Cost	322	56.24
Returns Per \$100 Feed Fed	173	
Total Pounds of Feed Fed		
Grain	294	51
Supplement	359	63
Complete Feed	133	23
<b>Total Concentrates</b>	<b>785</b>	<b>137</b>
Hay and Dry Roughage	5,684	993
Corn Silage	1,421	248
Other Silage	18	3
Pasture Days	336	59
Hay Equivalent (Tons)	6.8	1
Cost / Cwt of Supplement	21.99	4
Cost / Cwt of Concentrates	17.78	3
Pasture Days Per Animal Unit	218	38
Animal Units in Herd	172.5	
Number of Calves Born	97	
Calving %	86.5%	
Number Sold - Market	92	
Weight Per Market Animal Sold	621	
Price Received Per Cwt - Market	130.86	
Number Sold - Breeding	13	
% Cull Rate - Breeding	11.6%	
Weight Per Breeding Animal Sold	1,165	
Price Received Per Cwt - Breeding	78.58	
Death Loss - Total Pounds	3,631	
Death Loss - % Pounds Produced	5.6%	
Market Number	5	
Market Survival Rate %	95.3%	
Breeding Number	3	
Breeding Survival Rate %	97.7%	
<b>Net Farm Income Per Cow</b>	<b>34.60</b>	
<b>Management Returns Per Cow</b>	<b>(83.01)</b>	

**Table 4 - Average Market Beef Prices & Weights, 2008-2012**

	2008	2009	2010	2011	2012	5 Year Average
<b>Average Price Received Per 100 lbs.</b>						
Beef Cows, Calves Sold						
Market Price	\$91.87	\$89.92	\$93.40	\$114.93	\$130.86	\$104.20
Weight Per Market Calf Sold	684	566	637	585	621	619

**Table 5. Historical Beef Production & Returns**

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
# Cows in Herd	79	92	116	107	122	159	167	119	117	112
Number of Calves Born	74	84	106	101	111	121	132	108	100	97
Number Sold - Breeding	10	13	13	12	17	14	16	15	15	13
Number Sold - Market	66	72	95	77	107	97	133	102	96	92
Total Pounds of Beef Produced	40,997	48,567	58,295	57,805	64,750	71,183	75,589	69,842	66,686	65,296
Pounds of Beef Produced per Cow	519	528	503	540	531	448	453	589	572	583
Returns Above Feed Costs per CWT	\$32.45	\$47.95	\$43.11	\$31.11	\$27.98	-\$3.94	\$12.67	\$28.77	\$36.99	\$56.24
Returns Per \$100 Feed Fed	\$178	\$213	\$175	\$159	\$154	\$95	\$117	\$145	\$152	\$173

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