History of FFSC

The following highlights the history of the Farm Financial Standards Council.

How FFSC got started

The decade from 1973 to 1983 covers a period in the history of American agriculture that started with optimism, bordering on euphoria; and ended with discouragement and disillusionment, bordering on depression. The number and magnitude of events and changes experienced in that decade would at least rival the events and changes experienced by American agriculture in any preceding decade.

From 1983 to 1987, agriculture suffered through what is now looked back on as the "Farm Debt Crisis" The experience of those years pointed out that methods used to determine, measure and analyze the financial position and the financial performance of agricultural producers were either totally inadequate or seriously underutilized.

The Farm Debt Crisis created an increased interest in farm financial education and a demand for more sophisticated techniques for analyzing financial position and financial performance. That demand brought about a rapid expansion in the number of textbooks, computer software programs, and products and services to be used for such analysis. Many of these new systems incorporated unique methods of analysis, which only added to the existing wide array (or disarray!) of procedures and practices followed in analyzing the financial position and financial performance of farm operations. Unfortunately, it was often difficult for agricultural producers, lenders, farm financial advisers, or other interested parties to be confident in the theoretical validity and technical soundness of the system to perform any type of comparative analysis of the financial position and financial performance of one farming operation to others within the same industry group.

In 1988, the Executive Committee of the Agricultural Bankers Division of the American Bankers Association conceived a project to attempt some standardization in financial reporting and financial analysis with respect to agricultural producers. The need for at least a degree of standardization was highlighted in the February 22, 1989, <u>Report of the National Commission on Agricultural Finance</u>. One of the three major recommendations for action made by that Commission was as follows:

> *Efforts are needed to develop: (a) a universal loan application, and (b) accounting standards for farm businesses. Efforts should address both loan documentation and accounting practices for analyzing farm businesses and for collateralizing loans. As sales of agricultural loan instruments become regional and national, such documentation and standardization are essential.*

The emergence of the Farmer Mac program provided further impetus for standardization of financial documents supporting loan applications. On January 22-23, 1989, at the invitation of the Agricultural Bankers Division of the American Bankers Association, there was a gathering in St. Louis, Missouri of more than 50 interested parties representing virtually all aspects of agricultural finance. People invited to this gathering were recognized by their peers as being experts in the field of agricultural finance; others were interested parties having demonstrated varying degrees of expertise in understanding and analyzing the financial position and financial performance of agricultural producers.

The purpose of the meeting was to focus on financial reporting and financial analysis for agricultural producers. The facilitator for that initial meeting, Dr. David Kohl of Virginia Polytechnic University, opened with the charge "check your ego and lapel pin at the door"; and closed with an observation that notwithstanding the apparent differences among various parties, there was probably better than 80 percent common ground with respect to what were deemed to be appropriate methods for both financial reporting and the analytical techniques useful for effective and realistic measurement of the financial position and financial performance of agricultural producers.

Beyond the financial analysis of a single farming operation, there were recognized to be other benefits of standardized methods of financial reporting and financial analysis for agricultural producers. Uniform guidelines and formats could facilitate the educational process for those associated with and interested in production agriculture. In addition, uniformity would permit interested parties to collect data for historical and comparative analysis of farming operations. When such information is assembled over time, it might be expected to aid in development of benchmarks that would reasonably be expected to facilitate the flow of capital and credit into the agricultural community. Furthermore, by applying those benchmarks to understand the impact of debt and equity capital on various types of farming operations, there may be improvement in pricing (i.e., interest rates) for debt capital used by agricultural producers.

There was clear consensus from among the participants that it would be worthwhile to make a concerted effort to develop and publish standardized financial guidelines for agricultural producers. Subcommittees were created and work began on the first edition of the FFSC standards.

Birth of the Farm Financial Standards Task Force

From these early discussions the Farm Financial Standards Task Force was born. It was chaired by Stan Forbes, VP-Ag Finance of the Federal Agricultural Mortgage Corporation in Washington, DC. (Stan started this project while he served as Chairman of the ABA Ag Bankers Division Executive Committee and Senior VP/Director of Sovran Bank in Charlottesville, Virginia.) The original task force membership included 12 academicians, 10 commercial bankers, 5 Farm Credit System and Farm Credit Council members, 6 insurance companies, 2 commercial lenders (JD & Mabesco), Farmers Home Administration, 4 accountants, 6 from federal regulatory agencies, 1 from the Senate Ag Committee, 4 from USDA-ERS, 2 farm software firms, 3 observers from GAO/Agrifinance; and ABA staff.

Three subcommittees were formed:

1. Universal Financial Criteria and Measures Committee – Freddie Barnard, Coordinator
2. Universal Financial Reports Subcommittee – Steve Hofing, Coordinator
3. Universal Information Management Subcommittee – Jim McGrann, Coordinator

Dr. Kohl played a vital role in facilitating the meetings of the Task Force. Key contributing authors to the first exposure draft were: Dr. Freddie Barnard, Purdue University; Steve Hofing, Centrec Consulting; Dr. Jim McGrann, Texas A&M; John Crowgey of the Farm Credit Banks of Baltimore, and many others. Leslie Miller, Ag Bankers Advisory Services, played a critical role in coordinating the entire effort initially, and John Blanchfield continued her outstanding work as the first report was prepared.

In addition to the leadership efforts of subcommittee chairmen Barnard, Hofing and McGrann, several subcommittee stewards contributed significantly to the task force efforts: Dr. Eddie LaDue, Cornell

University; William Shirley, Delta Advisory Group; Dr. Gayle Willett, Washington State University; and Chuck Wolf, Sr., United Missouri Bank of Kansas City. John Crowgey, Farm Credit Banks of Baltimore, also played a key role as a member of the Financial Criteria and Measures Subcommittee.

In May of 1990 a public exposure draft entitled "Recommendations of the Farm Financial Standards Task Force" was disseminated for comment to all stakeholders for a 60-day comment period to end July 20, 1990. In his introductory comments in the Preface of the exposure draft, Chairman Stan Forbes stated, "It is our desire that this manual will be of frequent use to all farmers, lenders, academicians and accountants; both as a reference source and as a teaching tool."

The 1st FARM FINANCIAL STANDARDS "REPORT"

On November 9-10, 1990, after untold hours of volunteer time, enormous contributions of resources from several land grant institutions and other firms, several public exposure drafts, and intense discussion and debate, the first Farm Financial Standards Task Force Report[1] was approved and subsequently issued in May 1991.

The recommendations of the FFS Task Force were published in a Report containing three substantive sections:

Universal Financial Reports. This section contained suggested procedures and concepts for constructing farm financial statements for the purposes of financial reporting and financial analysis (i.e., the balance sheet, the income statement, the statement of cash flows, and the statement of owner equity).

Universal Financial Criteria and Measures. This section contained material regarding definitions, computations, interpretations, and limitations of some of the most widely used measures of financial position and financial performance.

Universal Information Management. This section contained suggestions for collecting and using standardized farm financial data for the benefit of agricultural producers and those who serve them.

On November 13-14, 1993, revisions to the Report were approved to add an Appendix explaining in layman's terms the significant differences between Cash and Accrual accounting.
On November 12, 1994, several additions, clarifications and revisions to the Report were approved in the following areas: Treatment of Personal Assets and Liabilities and Non-Farm Income; Treatment of Raised Breeding Livestock; Capital Leases; Inventories; and Deferred Taxes.

On November 8, 1997, the FFSC approved expansion of the Report by the addition of material on Disclosure by Notes and a Glossary. In addition, clarifying and conforming changes were made where appropriate. This expansion of the Report was an effort almost as significant as the original draft – it provided considerably more detail on technical areas of the document that were very valuable to readers and adopters of the Guidelines. Dr. Eddie LaDue, Dr. Arnie Altmans, North Carolina State University, Dr. Freddie Barnard, Dr. Alan Miller of Purdue, Jeff Bushey of Nietzke and Faupel, Joe Daughettee of Daughettee and Parks, CPAs, Dr. Danny Klinefelter of Texas A&M University, Steve Hofing, and John Crowgey provided significant writing support during this effort.

The *Financial Guidelines for Agricultural Producers* found in the Report were not born in haste and have not been modified or enhanced without extensive discussion and due consideration. The objective has always been to reach consensus on a common ground. However, overriding all other considerations has been a commitment that the Report must always be theoretically correct and technically sound.

Structure of the FFSC

On March 8, 1993, the Farm Financial Standards Task Force was incorporated as a “Nebraska non-profit corporation” and a board of directors was elected.

On November 12, 1994, the corporate name was changed to Farm Financial Standards Council to reflect more appropriately an organization having permanence.

The FFSC is governed by a Board of Directors, each of whom is elected to serve a three-year term. The officers consist of a President, Vice President and Secretary – Treasurer, each of whom is elected to serve one-year terms. Directors and officers are selected from among interested persons who have actively participated in the development of the Report or have otherwise demonstrated an interest in and commitment to the Mission of the FFSC.

The FFSC has served as an independent body made up of persons serving without pay. In addition to the volunteer time, many organizations have contributed substantial amounts of staff time and material to sustain the effort of the FFSC. Deserving of special recognition are the substantial cash contributions received from The Farm Foundation in the early years.

The FFSC was intended to represent a forum for identification, discussion and resolution of issues regarding both financial reporting and the measurement of financial position and financial performance. Issues for resolution by the FFSC are identified by its directors, officers and others from their own knowledge or by polling non-FFSC persons about those areas of financial reporting or financial measurement and analysis where discussion is needed to resolve conflict or inconsistency, or is needed to respond to a deficiency, all with respect to production agriculture.

FFSC Relationship to the Accounting Profession

The FFSC is not and was never intended to be an organization of accountants— the accounting profession is only one of several groups of interested parties with representation on the Board of Directors. Accordingly, the FFSC has no standing to specify Generally Accepted Accounting Principles (GAAP) or changes thereto. That responsibility rests primarily with the Financial Accounting Standards Boards (FASB) and the American Institute of Certified Public Accountants (AICPA).

The FFSC believed that financial statements prepared in accordance with GAAP, together with certain supplemental information important to farmers and analysts, represented an appropriate standard for production agriculture. However, the FFSC *Guidelines* were intended to identify and provide suggested treatment for certain areas of financial reporting that, although not in accordance with GAAP, are in relatively widespread use among interested parties other than the accounting profession. In cases where farm businesses do not have, and likely cannot afford to have, the internal accounting systems necessary to generate financial statements in accordance with GAAP, the FFSC believes that the identified alternatives contained in the *Guidelines*, if adequately disclosed, still provide information useful for analytical purposes.

Mission of the FFSC

The original mission statement of the Council was stated as follows:

> *To provide education and a national forum to facilitate the development, review, communication and promotion of uniformity and integrity in both financial reporting and the analytical techniques useful for effective and realistic measurement of the financial position and the financial performance of agricultural producers.*

This mission remained the official directive of the Council until a significant revision was made during the Council's Strategic Planning session during the 2006 Annual Meeting. After re-examination of the Council's audience and key business focus, the following revision was made to the mission statement:

THE MISSION OF THE COUNCIL is to provide a national forum for developing standards and implementation guidelines (Core Product)…for preparers and users of agricultural financial information (Primary Customer) …that will promote uniformity and integrity in financial analysis and reporting for agricultural producers (Primary Business Objective).

The Council also added the following vision statement at the same meeting to provide a basis for evaluating our long-term success.

Our Vision: Our mission will be accomplished when:

- Forums we sponsor identify critical areas where standards are needed;
- Standards supplement already existing bodies of general accounting and financial analysis;
- Standards are developed in a timely manner;
- Council efforts are perceived with credibility by industry players; and,
- Standards are readily accessible.

Early Goals of the Council, Departures from GAAP, and Key Provisions of the Guidelines

The following constituted the primary goals of the Council's early efforts:

- To establish recommended standards for format and content of financial reports of agricultural producers;
- To identify certain financial measures (usually ratios) common to all areas of the country and all sectors of agriculture and establish standardized methods of calculating those measures; and
- To encourage the development of an agricultural financial database.

The following recommendations included in the guidelines constituted departures from GAAP:

- Both Cost and Market Values were required in constructing the balance sheet. Either could be the primary format;
- With market value as the primary Balance Sheet format, the Owner Equity section must differentiate Retained Capital from Valuation/Personal Asset Equity;
- When valuing inventory, market values were considered acceptable for market livestock;
- The Base Value Method was deemed acceptable for valuation of Raised Breeding Livestock; and,
- On Capital Leases it was deemed acceptable to use the Estimation Approach

The original report contained a number of recommendations that deviated from traditional practices by Ag lenders. The guidelines recommended:

- Use of both cost and market value of capital assets;
- A two-category Balance Sheet format;
- The Income Statement be presented in an accrual adjusted format;
- Separation of Personal Assets and Liabilities;
- Specific identification of Withdrawals and Non-Farm Income on the Statement of Cashflows and Income Statement;
- Incorporation of Deferred Taxes and Capital Leases either on the Balance Sheet or in foot-notes; and,
- Expressing depreciation as either tax or book, but discourage using the "percentage of market value" approach.

The report also contained significant discussion in the following areas:

- Cash vs. accrual accounting
- Treatment of personal assets and liabilities and non-farm income
- Treatment of raised breeding livestock
- Capital leases
- Inventories
- Deferred taxes

Summary of Financial Measures Endorsed by the FFSC

The Council reviewed a plethora of financial measures used within the banking, educational, and farm management arenas. The original guidelines defined and endorsed 16 original financial measures, later deemed the "Sweet 16." The original measures endorsed were as follows:

- Liquidity
  - Current ratio
  - Working capital
- Solvency
  - Debt/asset ratio
  - Equity/asset ratio
  - Debt/equity ratio
- Profitability
  - Rate of return on farm assets
  - Rate of return on farm equity Operating profit margin ratio
  - Net farm income
- Repayment Capacity
  - Term debt and capital lease coverage ratio
  - Capital replacement and term debt repayment margin
- Financial Efficiency
  - Asset turnover ratio
  - Operational ratios
    - Operating expense ratio
    - Depreciation/Amortization expense ratio
    - Interest expense ratio
    - Net farm income from operations ration

These ratios were deemed to have a number of benefits to Agricultural Bankers:

- More availability of CPA statements;
- More consistency in education and software related to recordkeeping software design and financial analysis procedures;
- Faster development of integrated production and financial databases; and,
- Greater value of internal databases.

Information Management – Early Goals

Looking back at the early history, one major initiative of the original Task Force saw significant difficulty actually coming to fruition. The Information Management Subcommittee was established to provide guidance and expertise in designing a national database (the *Farm Financial Standards Management Information System" – FFS-MIS).* This database was to incorporate financial standards specified by the two other Task Force subcommittees. It was envisioned that the MIS would be implemented as an on-line computer system available 24 hours a day. It would accommodate mail-in data and general annual hard copy reports. Software would be developed that facilitated easy data entry into a national database that would also allow users to retrieve information.

It was also envisioned that the Task Force would implement a certification program for agricultural accounting software vendors who incorporate the standards in their software. The certification process would alert buyers of software products that calculations and financial reports were consistent with recommendations of the Task Force.

As the Council continued to wrestle with this initiative, it became clear the goals of the Information Management Subcommittee were a much bigger challenge to actually implement than originally thought. Significant efforts were devoted later on in the Council's efforts to creating a Standard Chart of Accounts, lead capably by John Larson. But development of a national database and certification of software became tasks that have not been continued as efforts capable of being implemented within the council's resource constrictions.

Successes and Myths about FFSC Guidelines

Since the publication of the Council's *Guidelines*, the agricultural finance, farm management and agricultural educational organizations experienced a major shift towards consistency in how they present financial statements and perform calculations for key financial measures. However, many who tracked the Council's efforts and recommendations developed myths about the nature of the Council and its conclusions.

Significant myths and facts related thereto are as follows:

<u>Re: Credit Analysis</u>
Myth: The FFSC Recommendations are meant as credit analysis recommendations
Fact: Development of an effective credit process requires evaluation of numerous factors beyond the scope of the FFSC Recommendations.

Re: GAAP Compliance
Myth: FFSC Recommendations are meant as a substitute for or replacement of GAAP
Fact: FFSC Recommendations are based on the Conceptual Framework documents, and are largely consistent with GAAP. Accountant opinions based on FFSC Recommendations are and will continue to be qualified.

Re: Partial Adoption
Myth: Partial adoption is not worthwhile.
Fact: Many organizations have not adopted all of the FFSC Recommendations. As the trend toward total adoption grows, partial adoption can provide significant benefits.

Re: Financial Statement Format
Myth: Only the financial statement formats included in the Recommendations are acceptable.
Fact: Financial statement formats included in the Recommendations are for illustration purposes only—the key is consistency with the methods themselves.

The "Post Release Era - Financial Guidelines" 1997 - 2000

The focus of the Council over the next several years consisted of publishing and distributing guidelines as well as working on adoption throughout the agricultural banking, education and extension, and farm management arenas.

The Council originally marketed copies of the *Guidelines* for $25.00/copy (although volume orders were discounted) creating a major source of revenue during the years 1994 through early 2001. Over 3,000 hardcopies were distributed during this time. However, as the document aged, the number of orders declined steadily and the decision was made to post the document on the Council's Web site and allow visitors to download it at no charge.

Subsequently, the Internal Revenue Services recognized the *Guidelines* as an important resource document and placed it on the IRS list of recommended publications. That has kept alive some enthusiasm for the product. More recently, however, there have been queries for versions more recent than the 1997 version, which was becoming perceived as outdated.

Annual meetings and summer symposiums concentrated on refining interpretation of the guidelines and promoting adoption of standardization in the agricultural sector. Membership rosters and mailing lists from a number of allied organizations helped generate additional interest in attending these annual events. The Council also became registered with the State of Illinois as a Public Accountant Continuing Professional Education Sponsor. Hence, CPAs could attend FFSC meetings and received CE credits for their attendance.

For a number of years Council members also tended the FFSC booth, which was made available at the annual Agricultural Bankers Conference. Activities such as that, as well occasional news releases about FFSC elections or meetings allowed the Council to maintain a presence in the agricultural production, lending and accounting industries.

The effect of the council's publishing the original guidelines has been felt in many ways:

1. Major changes have occurred in consistency of financial statement presentation throughout the banking and financial analysis industry;
2. Preparation of Balance sheets as of fiscal year-ends rather than at the convenience of the banker has become the norm rather than the exception;
3. Producers and analysts are increasingly calculating accrual income rather than cash or taxable income;
4. Key ratios endorsed by the council are seen commonplace in ag software and ag lending analysis programs;
5. Financial analysis programs like FINPACK, as well as numerous Farm Business Recordkeeping Associations, have made major strides to achieve compliance with FFSC standards;
6. Educators in land grant colleges, farm management programs and community colleges have used guidelines, ratios and case studies as foundation material from the published *Guidelines* for developing teaching materials and applications for implementation.
7. A major educational development program based on the FFSC *Guidelines* was funded by USDA and became a major source of educational material for land grant universities, community colleges, and vocational agriculture instructors. This program was a collaboration of many land grant universities, and the project was headed by Clemson University and Texas A&M.

Funding Strategies

As a non-profit organization, the Council has functioned on a barebones budget since its inception. Most who participated in Council efforts not only volunteered their time, but also provided for their own travel expenses. Notwithstanding this generous commitment of time and financial resources, the council still required a base funding for annual meetings, special task force meetings, administrative support, materials publication and council communication efforts.

Early in the Council's existence a funding outreach was developed to assure a stable funding base. A benefactor program was developed to support FFSC operations by soliciting lump sum and multi-year pledges. Contributors are recognized for five years on our website with varying acknowledgements for being visionary ($7,500), platinum ($2,500-$7,499), gold ($1,000-2,499), and silver ($100-999) sponsors.

Initial Visionary sponsors included AgriBank, FCB, AgriSolutions, Centrec Consulting, and the Farm Credit Council, The list has grown to include RaboAg, Christiansen Land and Cattle Company, Red Wing Software, Mid-Atlantic Farm Credit, Farm Credit Services, Spokane, Land O'Lakes, LLC, Web Equity Manager, and numerous individuals. It is also important to acknowledge the significant support provided by the American Bankers Association in the formative years of the Task Force, as they covered travel expenses for all the academicians in attendance as well as general Council meeting expenses.

The Managerial Accounting Project

In 2000 the Council established a Task Force to tackle the need for guidelines in managerial accounting. The commitment to take on this project was driven by a series of meetings starting in 1998 involving pork, corn, and soybeans leaders.

Earl Dotson made a presentation at the 1998 FFSC Technical Symposium on the status of the National Pork Producers Council's Production and Financial Standards effort. After that, the leadership of the Corn and Soybean commodity organizations determined it would be beneficial for their groups to also develop a set of production and financial standards to augment those from the pork and beef organizations since many of the elements would be interrelated.

Paul Havick, education director for the Iowa Soybean Association, agreed to assume the leadership for the effort to develop a set of nationally accepted and recognized production and financial standards for corn and soybean producers. An ad hoc taskforce of corn and soybean producers was assembled to accomplish this goal.

This group attended a planning session convened by the FFSC Communications Committee on January 5, 1999 at the National Pork Producers Council in Clive, Iowa. The purpose of the meeting was to give a background on the FFSC effort to date and determine what role it should play in the adoption of the standards by the commodity groups.

The corn – soybean standards taskforce held several meetings facilitated by Allen Lash throughout 1999-2000. In addition to producers, the makeup of the taskforce included representatives from the lending community as well as academia involving both the economics and agronomy disciplines. While there was some progress on a chart of accounts and production definitions for grains, it became a challenge merging these with the other individual commodity efforts for a multi-commodity initiative.

A Multi-Commodity Standards meeting was held at Indianapolis in July 2000 to discuss the status of the standards efforts with each of the commodity groups involved (pork, beef, corn, soybeans, and cotton). The late Kevin Moss, then president of the FFSC, presented a proposal for this group to oversee the continuation of the series of meetings.

Later at the 2000 FFSC Technical Symposium, the Council offered to coordinate this initiative with the development of a set of management accounting guidelines that would include an industry-wide uniform chart of accounts and cross-commodity integrated financial and production ratios. The four commodity groups of pork, beef, corn, and soybeans agreed to sponsor this effort with a financial commitment from each for the project. Thus began the lengthy discussion and debate on the development of the management accounting guidelines for agriculture.

The decision to proceed with the MA project was driven by three initial priorities:

1. Establish a foundation for benchmarking in agriculture;
2. Improve producer understanding of cost of production; and,
3. Establish a more standardized base level chart of accounts.

Many involved with the Council felt that with the development of the basic *Guidelines* now behind the organization, the MA Project was a natural "next step" for the Council's focus. However, many also believed this would be a Mount Everest-sized task and not likely to be achievable given the Council's limited financial resources. The Council got a financial shot in the arm thanks to efforts led by Kevin Moss. He solicited $10,000 pledges from each of four national commodity groups (Cattleman's Beef Board, United Soybean Board, National Corn Growers Association and National Pork Board) to provide seed funding for a special Task Force to begin deliberations on this new project.

The MA project was launched literally in a "storm" in Bloomington, Illinois, in the fall of 2000. Presentations by Jim McGrann and Dick Wittman set the stage for issues the council should consider as it defined the scope of this project. From this and subsequent task force sessions, a topical outline of issues was developed that became the Council's working agenda over the next several years. Key implementation issues the Task Force addressed in the guidelines included:

- Sorting out accounting and economic analyses;
- Identifying manageable segments;
- Determining proper design for profit and cost center reports;
- Handling unusual transactions – defining cost recovery and revenue adjustments;
- Standardizing definitions for direct vs. indirect and variable vs. fixed costs;
- Establishing protocols for handling transfer pricing;
- Alternatives for allocating indirect costs (i.e. overhead);
- Dealing with land costs – as a cost center or investment center; and,
- Numerous technical issues such as inventory valuations, handling equipment gains/losses, and proper ways to handle equipment depreciation

Early conclusions of those on the Task Force were that the Council should be able to deliberate for a couple years and then deliver guidelines in written format. Little did anyone involved realize how big this project would eventually become. Technical Committee Chairman Steve Hofing facilitated a series of Task Force meetings over the next five years. The Task Force provided a forum for voluminous debates amongst a diverse mix of ag producers, extension educators, software developers, and consultants. Numerous white papers and special topics were vetted before the group.

Long before the Council settled on its final recommendations, members of the Task Force were receiving demands from a growing interest in the ag industry for presentations concerning how MA could be implemented in the agricultural industry. Hofing, Wittman, Gillings, McGrann, and others made numerous presentations to accounting groups, TEPAP, commodity conventions and consulting conventions spreading the message about the MA Project. Three major ag software companies, Red Wing Software, (Ken Hilton), FBS Systems(Norm Brown), and AgriSolutions (Allen Lash), worked closely with the MA project to provide input on standards definition and implementation. Their involvement also helped position their companies to implement MA concepts in their accounting systems. The NPPC was very gracious in supporting the work of the MA project in its early years, and allowed access to all of their internal deliberations and white papers developed during their pork standards project.

An invaluable exercise to the council's MA development efforts was a $40,000 Risk Management Agency grant that funded a test drive of the Council's early concepts amongst a group of Pacific Northwest grain producers. Results from this project provided invaluable feedback on the content as well as strategies for furthering adoption of MA. It also gave producers confidence that many of the concepts being addressed in the MA producer were capable of being put into practice, albeit not without considerable investment in education and professional support.

2005 Release – Managerial Accounting Guidelines Released

After five years of development efforts and countless meetings and work efforts the Council released its first draft of the Managerial Accounting guidelines for public comment at the Council's Annual Meeting in Las Vegas, NV, on December 2, 2005. Consisting of some nearly 90 pages, the draft was far from complete, but represented a solid blueprint of concepts with limited case studies for practitioners and educators to begin biting into the concepts. The draft was published on the Council's Web site and received numerous hits.

The Council approved the final release at the 2006 Annual Meeting on December 9, 2006. As with the other development efforts of the Council, dozens of individuals spent numerous hours involved in meetings, deliberations, and writing of drafts and whitepapers as the final document was prepared. Special recognition is due to a number of them for performing well above the call of duty, including Kevin Moss, Kendall Thompson, Jim McGrann, Dick Wittman, Don Gillings, Alan Miller, Ron Swanson, Jeff Bushey, Daryl Ellis, Norm Brown and John Larson.

This presented several new challenges for the Council:

1. How do we promote the guidelines to producers, educator and practitioners?
2. Whose job is it to facilitate adoption?
3. Where will funding come from to support Council efforts in the future?

In 2006 a white paper was developed suggesting alternatives strategies for implementation. The Council examined target audiences, events where we could feature MA, tools and strategies for implementation, funding options to support adoption. Funding initiatives were made to Congressional parties, Farm Credit and other entities to jump-start national implementation efforts.

The Council in Limbo

The council encountered little success in achieving significant funding for MA or other Council operations. It was suffering from other challenges including a very tired "old guard,"— (longstanding members and workhorses on the Council were dying, retiring, or stepping down from leadership roles). Many were asking, "What should our future role be—have we done our thing and now it's time to roll up the carpet? Or do we have a continuing mission to serve?"

The Council's Work is Never Done…

In 2006, the Council engaged in a comprehensive Strategic Planning discussion. This was the first time the Council revisited its strategic direction since similar efforts took place in 1997 and 1998. A major conclusion of the Council was that the MA project, albeit a very worthwhile project, had diverted the council away from much of its original focus.

The council concluded it had a number of housekeeping issues that had been put on the back burner or simply overlooked. Consequently, in 2006 and 2007 a major focus of the Council was to place balanced emphasis on:

1. simplifying the organizational structure and committee design as well as getting committees re-staffed with members who would be active on the committees;
2. assessing alternatives for the future existence of the Council and how it would fund its efforts depending on what focus it targeted;
3. getting the message out on implementation of the MA Project; and,
4. re-visiting a number of technical issues related to the original guidelines

The Council's Executive Committee implemented a practice of monthly conference call meetings to keep active projects moving along. Dale Nordquist took over the role as chairman of the Technical Committee. With renewed vigor, the council finally brought to "harvest" a number of technical issues during the 2007 Summer Symposium:

1. Cleaned up numerous technical issues in the basic *Guidelines* and Appendices, and voted to release an updated version of the original guidelines after final approval of edit suggestions.
2. Added/modified three new financial measures that are widely recognized in the financial analysis and lending industry: Working Capital to Gross Revenue; EBITDA; and CDRC margin calculations (expanded this definition).
3. Endorsed a major policy change in handling depreciation (recommending use of book value rather than tax depreciation).

Change in Meeting Structure

With declining resources and busier schedules, the Council was experiencing increasing difficulty getting attendance at its two yearly meetings (an annual meeting at year-end as well as a Technical Symposium in the summer). At the 2006 Strategic Planning meeting, the Council elected to move to a single meeting format and supplement that with regularly scheduled conference calls or Task Force-type meetings of the Executive committee and other operating committees (Technical, Finance, and Communications) on an "as needed" basis. The first such meeting held in Red Wing, Minnesota on August 9-11, 2007 had some of the best attendance ever at a Council meeting.

Special Acknowledgements

The FFSC is a volunteer organization. There isn't enough room to adequately list or describe all who have contributed to the council's success over the Council's nearly 20-year existence. However, this history would not be complete without giving recognition to a few individuals who have been critical pillars in guiding and supporting the Council's efforts.

Three individuals have been involved with the Council since the very first meeting in 1989: John Crowgey, who was the lone "technical" speaker at the first meeting of the Task Force in St. Louis, has served as President, chaired numerous committees, authored significant portions of the original guidelines, and has contributed endlessly as the resident historian, parliamentarian, and consistency editor; Steve Hofing was heavily involved in writing tasks for both the Guidelines and the MA project, served on the Executive Committee every year from its inception until he stepped down in 2007, chaired or co-chaired both the Technical and the Finance Committees, and coordinated presentations at many Technical Symposiums. Centrec staff also provided much of the writing and publishing support over the years to get the Council's efforts into print. Kevin Moss from AgriBank, who passed away in 2005, provided a unique blend of passionate leadership, and grass roots commitment to the organization. He is the only person to serve two terms as President, worked tirelessly to raise funding for the Council, and almost single-handedly "bootstrapped" the MA project into existence. Paul Ellinger has volunteered his time and the University of Illinois' hosting services to provide website administration and maintenance for many years. John Larson has been the primary gatekeeper for content accuracy and presentation format of the Appendices included in the guidelines. John also led the efforts to forge consensus on a standard chart of accounts.

Carroll Merry, the Council's Administrator, has worked through countless administrations to help assure an orderly annual handoff for the Executive Committee teams, and he has been a key to planning and executing details associated with our regular annual meetings and symposiums. .

Where to From Here

There seems to be ample evidence to date that expanding producer adoption of managerial accounting as well as compliance with the original guidelines has significant potential to improve the viability of our agricultural industry. The question is: What should the Council's strategy be from here? Do we say? "The standards are out…our job is done…now we're folding our tents and going home." Do we amble along like we have been trying to lead, encourage, and support various constituencies in the hope implementation will take off spontaneously? Or do we try to gear up a more visible and active organizational effort to push implementation on a more aggressive basis?

The FFSC is at a critical juncture. A core group of talented and experienced professionals have dedicated countless hours developing and disseminating the Council's standards (both the original guidelines and the MA standards). Many of those resources are getting tired (and old!); and we need new blood and motivation to continue the Council's mission.

A key point that can easily be lost in the focus on MA is that the Council's primary mission is much broader concerning emphasis on financial management on the farm—specifically development and use of information to make appropriate decisions. As we look at future strategies and priorities, it behooves the Council to reflect on the still relatively low level of adoption in the agricultural industry of many of the core concepts in the original Council guidelines. The original guidelines focused primarily on <u>external</u> financial reporting and analysis. MA guidelines are a completely different animal—they are meant more for internal management use.

The scope of challenges presented by both external guidelines as well as MA guidelines reminds us of the size of our, as yet unfinished task, and poses the question: "Should we broaden our thinking on future educational initiatives to incorporate the original guidelines as well as MA?" If you examine potential teaching tools and techniques along with potential audiences we could serve (see white paper on MA implementation), it is easy to conclude this is a multi-man-year, multi-million dollar list. Is the Council the proper venue to take on this challenge, or do we continue to do a few things well and look to empowering other players/organizations to do the work and promote implementation?

The Council needs direction from the industry on where to place its emphasis, how to continue financial support, and where to find the people resources to keep its leadership momentum moving into the future. Hopefully this history paper can position each of you to take an active part in helping to plot the Council's future course.

Past Presidents of the FFSC

Year	Name	Company	Group Represented
1988			
1989	Stan Forbes	Sovan Bank	Commercial Banking
1990	Stan Forbes	Sovan Bank	Commercial Banking
1991	Stan Forbes	Sovan Bank	Commerical Banking
1992	Mike Grove	First National Bank	Commercial Banking
1993	Dick Overton	Agrifinance Group, The John Hancock Insurance Company	Commercial Banking
1994	John Gunderson	Farm Credit Council	Farm Credit System
1995	Jay Godwin		Commercial Banking
1996	Jay Penick	Northwest Farm Credit	Farm Credit System
1997	John Crowgey	Consultant	
1998	Don Gillings	Centrec Consulting	Service Industry
1999	Jeff Bushey	Nietzke & Faupel	Accounting Industry
2000	Kevin Moss	AgriBank	Farm Credit System
2001	Joe Daughhettee	Daughhettee & Parks	Accounting Industry
2002	Kendal Thompson	Land of Lakes	Supply Industry
2003	Eddie Hamilton	South Dakota State University	Academia & Coop Ext
2004	Kevin Moss	AgriBank	Farm Credit System
2005	John Larson	AgMac	Commercial Banking
2006	Dick Wittman	Wittman Consulting/Farms	Agricultural Producers
2007	Ron Swanson	Swanson Farms	Agricultural Producers
2008	Ken Hilton	Red Wing Software	Service Industry

[1] The FFSC was actually functioning at that time as the Farm Financial Standards Task Force. The term Council came into being at a later date.