

2011 Adjusted Gross Revenue Adjusted Gross Revenue-Lite Webinar February 17, 2011

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NYS Department of Agriculture & Markets,
USDA RMA and NOFA-NY



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Adjusted Gross Revenue

(AGR/AGR-Lite)

AGR/AGR-Lite Insurance Plan is a non-traditional whole farm risk management tool which uses a producer's historical Schedule F tax form or related IRS tax forms as a base to provide a level of revenue coverage for the insurance period

Whole Farm AGR-Lite/AGR Revenue

- Insurable Causes of Loss:
Insurance is provided against loss of revenue due to any unavoidable natural disasters, including but not limited to, adverse weather, fire, insects, disease, wildlife, earthquakes, volcanic eruption, or failure of irrigation water supply, if applicable, that occurs during the current or previous insurance year or market fluctuation that causes a loss in revenue during the current insurance year, ...
- Eligible Commodities Include:
 - Most Crops
 - Animal Production (land walkers to aquiculture)
 - Animal Products (milk, honey, wool, etc.)
 - Greenhouse Production
 - Organic Production (without additional premium charge)
- It's individualized producer protection based on your revenue (yield, quality & marketing skills) and provides low price protection!

Adjusted Gross Revenue Lite AGR-Lite

A Whole Farm Revenue Protection Plan

Provides protection against loss of revenue from natural and named causes of loss and market fluctuations

ENROLLMENT DEADLINE: 3/15 new applications,

Producer Eligibility Requirements

Basic eligibility requirements include having:

1. Engaged in farming: U.S. Citizen if insuring as individual; corporations, partnerships or trusts must be permanently established in U.S. and file tax forms
2. Five consecutive years of IRS Schedule F 1040 records (or related forms) under the same tax entity for the past five years and the insurance year (unless at least 90 percent of a previous farming operation was transferred to the current tax entity). These records must be available for inspection
3. Average annual adjusted gross income up to \$2.0 mil. (\$1,000,000 max. policy liability size - Protection in Force)
4. Not more than 50% of allowable income from ag commodities purchased for resale
5. Expected potato revenue may not to exceed 83.35% of the total revenue.

AGR-Lite – Coverage Exclusions

Some exclusions (but not limited to):

- Negligence, mismanagement, abandonment
- Failure to follow recognized farming practices
- Theft, vandalism, mysterious disappearance
- Lack of labor
- Inability to market commodities because of quarantines, boycotts, etc.
- Failure of buyer to pay for commodities

Application for AGR/AGR-Lite Coverage

- Prepare an Intended Commodity Report for the insurance year (2011)
- Prepare Commodity Profiles for the two years prior to the insurance year
 - **2010 & 2011 (first time application only)**
- Complete AGR-Lite Histories of Income and Expenses for tax years 2005-2009 for 2011 insurance policy
 - **2010 is the lag year**
- Prior to March 15 (for new insureds), he/she needs to file the Beginning Inventory for insurance year 2011
 - **including crops in storage & accounts payable and receivable**

Intended Commodity Report for 2011

- What do you plan to grow?
- How much do you expect to sell them for?

Ave. retail-
wholesale prices

Crop or Commodity Name	Code	Amount (Acres, # head, area, etc)	Expected Yield		Value (Price Per Unit)	Total Value
			#	Unit		
Apples	853	45	500	bu	\$ 20.00	\$ 450,000
Plums	92	1	3,600	lbs	\$ 1.59	\$ 5,724
Cherries	99	1	2,800	lbs	\$ 5.98	\$ 16,744
Raspberries	679	1	2,000	.5 pints	\$ 2.99	\$ 5,980
Melons	101	1	1,000	each	\$ 3.00	\$ 3,000
Asparagus	607	0.5	2,000	bunch	\$ 2.99	\$ 2,990
Tomatoes	86	0.5	800	.5 bush	\$ 39.79	\$ 15,916
Summer Squash	14	0.5	4,000	lbs	\$ 0.99	\$ 1,980
Winter Squash	669	2	1,900	lbs	\$ 0.79	\$ 3,002
Pumpkins	605	6	2,000	lbs	\$ 1.00	\$ 12,000
Hogs	805	1	12		\$ 110.00	\$ 1,320
Total Number Commodities	11				Total Expected Income	518,656

5 Year Income & Expense Records 2005-09 for 2011

SCHEDULE F (Form 1040)	Profit or Loss From Farming	Year
Department of the Treasury Internal Revenue Service (99)	▶ Attach to Form 1040, Form 1041, Form 1065, or Form 1065-B. ▶ See Instructions for Schedule F (Form 1040).	2000
SCHEDULE F (Form 1040)	Profit or Loss From Farming	2001
Department of the Treasury Internal Revenue Service (99)	▶ Attach to Form 1040, Form 1041, Form 1065, or Form 1065-B. ▶ See Instructions for Schedule F (Form 1040).	2001
SCHEDULE F (Form 1040)	Profit or Loss From Farming	2002
Department of the Treasury Internal Revenue Service (99)	▶ Attach to Form 1040, Form 1041, Form 1065, or Form 1065-B. ▶ See Instructions for Schedule F (Form 1040).	2002
SCHEDULE F (Form 1040)	Profit or Loss From Farming	2003
Department of the Treasury Internal Revenue Service (99)	▶ Attach to Form 1040, Form 1041, Form 1065, or Form 1065-B. ▶ See Instructions for Schedule F (Form 1040).	2003
SCHEDULE F (Form 1040)	Profit or Loss From Farming	2004
Department of the Treasury Internal Revenue Service (99)	▶ Attach to Form 1040, Form 1041, Form 1065, or Form 1065-B. ▶ See Instructions for Schedule F (Form 1040).	2004
Name of proprietor	<i>I. Am Interested</i>	
A Principal product. Describe in one or two words your principal crop or activity for the current tax year.	B Enter code from Part IV	
C Accounting method: (1) <input checked="" type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual	D Employer ID number (EIN), if any	
E Did you "materially participate" in the operation of this business during 2002? If "No," see page F-2 for limit on passive losses. <input type="checkbox"/> Yes <input type="checkbox"/> No		

Part I Farm Income—Cash Method. Complete Parts I and II (Accrual method taxpayers complete Parts II and III, and line 11 of Part I.) Do not include sales of livestock held for draft, breeding, sport, or show purposes except those of line F-1000.

Examples of Items Do Not Count as Allowable Income

- Revenue from the value-added post production activities (packing, packaging, sorting).
 - **The costs of labor, packaging materials, transportation to market, etc. must be deducted from the gross income.**
- Land or machinery rent, custom operations, storage rental, etc.
- Crop Insurance Proceeds
 - **But when filing a loss, the insurance proceeds will count as income and indemnity calculation will be adjusted accordingly.**
- Disaster Payments & Market Loss Assistance Payments

Allowable Income for AGR-Lite 2009

Schedule F Example

Schedule F	2008
Line 3: Sales of animal or other items bought for resale after cost basis:	\$ 64,428
Line 4: Sales of livestock, produce, grains, & other products produced:	\$ 416,630 *
Line 5b: Taxable amount of coop distributions:	
Line 7a: CCC loans reported under election	
Line 7c: CCC loan forfeitures; taxable amount:	
Line 10: Other income	
Allowable income:	\$ 481,058

* **Line 4: Excluded post production value added costs (sorting, packing, packaging labor & supply, processing, gift package etc.)**

Allowable Income for AGR-Lite 5 Year History

Schedule F	2009	2008	2007	2006	2005
line 3	\$ 64,428	\$ 35,375	\$ 60,066	\$ 50,472	\$ 39,020
line 4	\$ 416,630	\$ 364,241	\$ 307,867	\$ 297,579	\$ 278,110
line 5b					
line 7a					
line 7b					
line 10					
Allowable income:	\$ 481,058	\$ 399,616	\$ 367,933	\$ 348,051	\$ 317,130

- ❑ Average allowable income (AGR) \$382,757
- ❑ Since this business is growing in revenue, then just insuring the average revenue from the last 5 years would not be sufficient!!!
- ❑ For a business with an increasing revenue, indexing could apply...

Determining AGR-Lite Indexing and the Approved AGR

- **To qualify for indexing which would calculate a higher Allowable Income:**
 - The insurance year's total expected income (from the Intended Commodity Report - \$518,656) is greater than the Average Allowable Income - \$382,757 (Passes this test)
 - At least one of the 2 most recent tax year's allowable income must be greater than the Average AGR (\$382,757) (Passes this test)
 - Indexing will apply
- **Determining the Approved AGR**
 - The Approved AGR is the lesser of the Average or Indexed Allowable Income - \$581,409 or the Total Expected Income - \$518,656
 - The Approved AGR therefore is **\$518,656**

Allowable Expenses for AGR-Lite

- Why are expenses relevant and recorded?
 - Expenses are recorded so that a drop in gross revenue is not due to changes in expenses (inputs).
 - At the event of loss, if actual expenses drop below 70% of the average or indexed allowable expenses, then the Approved AGR will be adjusted, and payments reduced.

Note: Allowable Expenses will be indexed if Approved AGR is indexed

Allowable Expenses for AGR-Lite

- Most expenses are allowable.
- Non-Allowable Expenses are
 - Non-Animal depreciation – machine, building, etc.
 - Employee benefits and shareholders wages
 - Interest paid
 - Pension and profit share plans
 - Rents or Lease
 - Taxes and other non allowable expenses.
 - Costs of post-production activities (i.e. sorting, packing, packaging, gift baskets, flower arranging).

Diversification Formula

(RMA web-site will calculate this for you)

$$(1/\text{Number Of Crops} * 0.333) * (\text{Total Expected Income})$$

$$= 1/11 * 0.33 * \$518,656 = \$15,701$$

*Only those commodities that contribute at least \$15,701 (including grouping commodities together) will be considered a qualifying commodity = **4 Qualifying Commodities**

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AGR-Lite Policy Choices Based on Diversification

- 65% Coverage, 75% Payment Rate – 1 crop
- 65% Coverage, 90% Payment Rate – 1 crop
- 75% Coverage, 75% Payment Rate – 1 crop
- 75% Coverage, 90% Payment Rate – 1 crop
- 80% Coverage, 75% Payment Rate – 3 crops
- 80% Coverage, 90% Payment Rate – 3 crops

What constitutes a loss?

- Unavoidable causes:
 - **Market loss examples:**
 - Rainy weather during the spring causes a loss in retail sales.
 - Oversupply in the market caused low prices for your products
 - **Weather loss examples:**
 - Wet spring so you could not plant all your fields
 - Hail storm damaged the crop (or drought)
 - Your well runs dry during a drought and you cannot water your plants.
 - No electricity, so your cooler did not work and spoils your crops

What does NOT constitute a loss?

- Avoidable causes - Negligence, Mismanagement, or Wrongdoing.
 - Your irrigation system breaks down and your crops died.
 - Other mechanical failures
 - Employee wrongdoing
 - Not following “accepted production practices”
 - Theft

AGR-Lite Coverage Example

Chose the 80/90 policy & realized revenue of \$518,656 at the end of the year (less premium paid)

- Approved AGR \$518,656
- Coverage 80% = $\$518,656 * 80\% = \$414,925$
- Assume current crop year revenue = \$275,000
- Payment will be based on $(\$414,925 - \$275,000 = \$139,925)$
- Payment rate is 90%
- Insurance Payout is $\$139,912 * 90\% = \$125,933$

AGR-Lite Premium (Diversified Retail

Fruit and Vegetable Farm : \$518,656 Approved AGR)

- AGR Calculator was used: <http://www.rma.usda.gov/tools/>

Coverage Level	Payment Rate	Liability	Total Premium	Premium Subsidy (%)	Premium Subsidy (\$)	Farmer Premium	Percent of Liability
65%	75%	\$ 252,845	\$ 6,926	67%	\$ 4,645	\$ 2,281	0.902%
	90%	\$ 303,414	\$ 8,310	67%	\$ 5,573	\$ 2,737	0.902%
75%	75%	\$ 291,744	\$ 12,713	64%	\$ 8,118	\$ 4,595	1.575%
	90%	\$ 350,093	\$ 15,255	64%	\$ 9,741	\$ 5,514	1.575%
80%	75%	\$ 311,194	\$ 17,048	58%	\$ 9,928	\$ 7,120	2.288%
	90%	\$ 373,432	\$ 20,457	58%	\$ 11,913	\$ 8,544	2.288%

Inventory Valuation

- Carryover receivables will be valued at whatever dollars you received
- Ending inventory will not be calculated until loss time (probably March or later)
- Any inventory sold will be so valued
- Inventory still in storage will be valued at an agreed upon \$

What Happens In A Loss Year

- Complete current year Schedule F
- Subtract out income from the Beginning Inventory and Account Receivables
- Add in income from Account receivables and Ending Inventory not included in the current year tax return
- Compare expenses for more than 70% decrease

Where AGR/AGR-Lite makes sense

- Grower of otherwise uninsurable crops
- Organic production is protected at realistic prices
- Umbrella over selected individual crop coverages
- Interested in protecting the bottom line for operation from severe economic loss
- Where gross income survived droughts better than APH
- When other plans cost too much
- For Catastrophic animal health protection

AGR-Lite Summary

- New Whole-Farm Revenue Plan
- Covers Most Commodities
- Enrollment Deadline 1/31/11 for AGR
3/15/11 for AGR-Lite

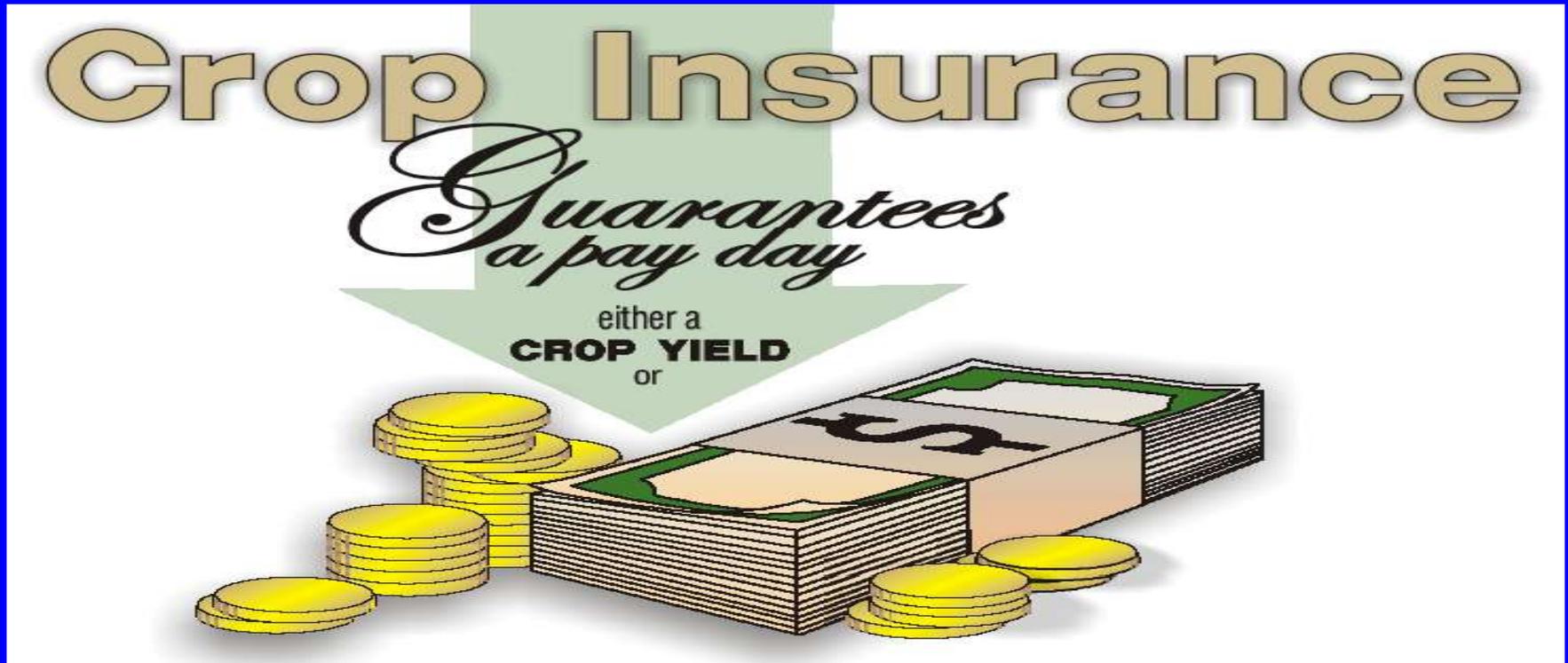
Contact a Crop Insurance Sales Agent for more information and a quote for your farm

New Beginning in 2008

For **SURE** (crop disaster program) Eligibility:

- All Substantial crops must be enrolled in crop ins. from Ins. Agent, Non- insurable crops in NAP from FSA/USDA
- Enrollment at higher levels of crop ins. coverage results in a higher Crop Ins. & SURE guarantees (*Protection may be 2.5 times greater*)
- Contact FSA for details

Crop Ins., NAP, SURE, ACRE & Marketing Tools Help to
“Guarantee Pay Days”



“These program that can help a producer survive a disaster and return to profitability!” 28 28