

Taking Care of Farmers

Editorial Manage by Numbers

The too often used cliché “If it can be measured, it can be managed” applies as much to farming as to any business. The ability to manage any part of a farming operation depends largely upon the ability to produce meaningful information that allows the farmer to test the impact of change. This applies to non-financial as well as financial information.

Most farmers understand that manipulating input variables will have an impact on the quantity and quality of the output. Change the application rate or chemical mix of fertilizer and the yield and quality of the resulting crop will also change. Vary the amount of protein or nutrients in a feed mix and the rate of gain or the conversion ratio will change.

The astute farm manager will measure the exact impact of these changes and track the cause and effect relationship over the years. As he varies each component of the input matrix he measures the effect on quality and quantity to determine whether there was a net benefit or not. As he builds his library of knowledge he is able to evaluate his theories quickly with increasingly better confidence in his analysis. He develops either manual journals to track the data or uses computer technology to record and manipulate his data. While some farmers rely on the “head and gut” method of data tracking, the capacity and reliability of these storage mediums is somewhat suspect.

The accounting system for a farm enterprise is an important part of an effective measurement system. When all is said and done, the ultimate measure of the effect of a change is whether or not it generates more profit. The generally accepted method for the measurement of profit is by subtracting expenses incurred from revenue generated, measured in terms of dollars.

Important to the accuracy of this measurement of profit is the allocation of expenses and revenues to their proper period. Accounting systems for any business enterprise, including farms, should use the accrual method. That is, the accounting system should recognize expenses as they are incurred (accounts payable) rather than when they are paid.

It should recognize revenue when it is earned (accounts receivable) rather than when it is received. Inventory is an asset of the business until it is sold or consumed in operations. The accounting system must recognize that profit and cash are not necessarily the same.

Complete and accurate accrual-based accounting records can provide an entirely new dimension to the measurement of data and change. The dollar cost of a change in input compared to the dollar value of the resulting change in output is the ultimate measure of the success of a strategy. Breaking costs and revenues down to dollars per input unit (dollars per acre, dollars per tonne, dollars per bushel, dollars per pound) gives a manager the ability to compare over time the impact of change. After all, a small change in the cost per unit of input, or revenue per unit of output, can have a large effect on the profitability of the operation. To make good decisions the accuracy and completeness of the accounting information must be just as accurate and complete as the production information.

Farmers can look many places to help them with the type and format of information they should develop. The Ontario Ministry of Agriculture and Rural Affairs produces vast amounts of information which can be used as benchmarks for all different types of farms. Agriculture and Agri-Food Canada provides a “Benchmarking for Success” website www.agr.gc.ca/ren/BenchmarkApp/apps_e.cfm which enables farmers to compare their results with industry standards. There are also links to other farm related sites for “best practices” and farm management information.

Accurate and reliable information, analyzed and presented in a variety of ways, can lead a farmer to decisions based on facts. Gut feel will always play a role in business decision-making, but good information can give that gut feel a better chance of being right. Isn't it odd how a farmer's intuition seems to improve with age and experience? Not really. Isn't experience is just one more method of collecting and analyzing information?

Brent VanParys

IN THIS ISSUE

Editorial: Manage by Numbers	1
CAIS Canadian Agriculture Income Stabilization	2,3
WSIB Reporting	3
Crop Insurance and CAIS	4

Taking Care of Farmers



**VANPARYS MICACCHI
SHIPPEY & WARNICK LLP**
Chartered Accountants



INTEGRATED BUSINESS PROFESSIONALS
an alignment of core business advisors

VMSW IS A MEMBER OF



Farm Assistance Programs

The Agriculture Group at VMSW keeps close tabs on several government programs that are important to our farm clients.

CAIS (Canadian Agricultural Income Stabilization) Program

The application deadline for the CAIS program has been extended to June 30, 2004. This was welcome news to us. We are busy preparing CAIS applications for our clients under the rules as they have been communicated.

Since our last Newsletter there have been a couple of program changes:

- (a) The maximum payment under CAIS has been increased from \$975,000 to \$3,000,000.
- (b) Negative production margins, which initially were not going to be covered under the program, will now be eligible for up to 60% funding for the negative portion. Farms experiencing a negative production margin will not have to withdraw any or their own funds for the coverage of the negative margin. All of this portion of the payment will be funded by the CAIS program.

Please ***remember to open a CAIS program account*** at a participating financial institution by June 30, 2004 and do **ALL** of the following.

- (1) Deposit between the minimum of 14% to 26% of your reference margin (1/3 of deposit requirement for 2003); or
- (2) Roll up to 52% of your reference margin of your NISA Fund 1; and
- (3) File your program forms (Schedule 1 Production Summary and Schedule 2 Inventory, A/R and A/P).

Program forms (T1163) must be filed by June 15 for individuals and June 30 for corporations.

This will ensure you have coverage for both the 2003 and 2004 programs. You will need to file a Schedule 2 for 2004 by March 2005 and your T1163 by June 2005.

Spring Credit Advance Program (SCAP)

This short term financing program provides interest free loans of up to \$50,000 for Ontario farmers to assist in the purchasing of crop inputs for planting. The full amount of the loan must be repaid by December 15, 2004 by direct payment, or by transferring funds from a Fall Credit Advance on crops in storage.

The program covers corn, soybeans, wheat, tobacco, vegetables, and more. To be eligible your crops must be insured through Agricrop. ACC is again the official administrator of this program.

If you need assistance or an application, please contact our office, or contact a dedicated SCAP phone line at (888) 278-8807.

Transitional Assistance to Tobacco Producers

The early information on this program indicates the federal government plans to provide transitional opportunities to tobacco producers in Ontario and Quebec.

The plan has three elements:

- Assistance to producers for whom growing tobacco is no longer viable
- Skill and development tools to help take advantage of other opportunities
- Identification of changing trends in international tobacco markets

The federal government promises that more details will be available soon.

Land Transfer Tax Exemption for Family Farms

The Ontario government recently announced an exemption from Land Transfer Tax on the transfer or sale of farm land between members of the same family.

General

- Ordinarily, a transfer of farmed land is subject to Land Transfer Tax, which can range from 0.5% to 2%, depending on the value of the property.
- With this new legislation Land Transfer Tax exemptions apply when:
 - › There is a transfer of farm land used in a farming business to a family farm corporation, as long as the corporation continues to farm the land, and the corporation shareholders are related and run the farm.
 - › The transfer of farm land is between related individuals and it continues to be farmed (effective March 28, 2003).
 - › Eligible family members include: spouse, child, mother, father, brother or sister and spouse/descendants, cousins, and descendants.
 - › Grandparents, certain spouse's relatives and a transferor's same-sex spouse are also eligible family members. This is consistent with the current exemption for transfers into a family farm corporation.

Qualifying for Exemption

- The person or people who buy/receive the transferred land must be related to the transferor and either they or their relatives must continue to farm the land.
- 95 per cent of the assets of the family farm corporation must be farming assets.



This measure will help reduce the costs of passing on the farming tradition to future generations and build a stronger, more prosperous rural economy.

Transitional Industry Support Program (TISP)

(1) Cattle and other ruminants

Producers of cattle and other ruminants are eligible to receive a flat rate payment based on their herd inventories as of December 23, 2003. Producers with cattle will receive a payment of **up to \$80 per bovine animal**, including dairy heifers, but excluding mature bulls and cows (cows that have calved and intact bulls older than one year.

For producers of other ruminants, payments per animal will be up to the following amounts:

- Sheep \$16
- Goats \$16
- Bison \$80
- Elk \$40
- Deer \$20

For forms and other information www.agr.gc.ca/tisp/
Application deadline is July 31, 2004

(2) General transition payments

General transition payments are based on the same formula used for previous bridging payments from the federal government and will be available to eligible producers.

- payments will be based on a producer's five-year average (1998-2002) of eligible net sales
- Producers who have participated in the NISA program or who had applied for the previous 2002/2003 federal transition funding will automatically receive payments

Clean Water Project (CWP)

The Clean Water Project (CWP) is a rural water quality initiative that provides technical assistance and financial incentives to improve and protect water quality on your farm.

Rural landowners in the counties of Oxford, Middlesex, and Perth, the cities of London and Stratford, and the town of St Marys are eligible to apply for the project through their local Conservation Authority. All projects require the completion of an Environmental Farm Plan (EFP) or CWP Worksheet for Septic Systems and Wells.

Conservation Authorities may offer increased grant rates and/or maximum grants for specific projects.

Eligible Projects	Gross Rate	Maximum Grant
Milkhouse Washwater Disposal	50%	\$2,000
Clean Water Diversion	50%	\$3,000
Livestock Access Restriction to Watercourses	50%	\$3,000
Nutrient Management Plans	50%	\$500
Wellhead Protection	50%	\$500
Decommissioning Unused Wells	50%	\$500
Fertilizer, Chemical and Fuel Storage or Handling	50%	\$500
Septic Systems	50%	\$2,000
Erosion Control Structures	50%	\$3,000
Fragile Land Retirement	50%	\$2,000

How to Apply

To apply for project funding, download and print the appropriate application forms from:
<http://www.thamesriver.org/CleanWaterProject/CWP.htm>

If you have any questions or need assistance, please contact Greg Bruce or Brent Mikitish in our Woodstock office at (519) 539-6109 or toll free at 1-877-539-6109.♦

WSIB - Reporting

In the Spring of each year, estimated assessable wages for the current year must be provided to WSIB. Actual wages for the year must then be reported by calling WSIB at 1-888-259-4228. WSIB no longer sends out annual returns. It is left to the employer to provide this information.



Crop Insurance and CAIS

It's a question being asked by many farmers: Does the CAIS program replace government and private crop insurance?

At first glance the answer may appear to be yes. Crop insurance proceeds are qualifying revenue for purposes of the CAIS program, increasing the current year's production margin. Any proceeds from crop insurance would, therefore, reduce an entitlement to a CAIS payment. Why would a farmer pay an insurance premium for coverage that would, if collected, reduce other entitlements?

This same issue is obviously of concern to the general insurance brokers who service the agriculture sector. Private crop insurance for tobacco is an important part of their business, and they want to ensure they are providing their farm clients with proper advice and coverage.

At VMSW we needed to be able to provide our clients with solid guidance on this matter. To do so we required more information. Our solution was to combine our knowledge of the CAIS program with that of an insurance broker with knowledge in the agriculture sector. Tom Leitch of McFarlan Rowlands Insurance Brokers and Greg Bruce of the VMSW Agriculture Group met to develop an answer to the question.

In general we found that private and government crop insurance still play a role in agriculture risk management.

The Crop Insurance Program and Private Insurance (tobacco) combined with CAIS will:

- Stabilize the CAIS reference margin over time
- Stabilize cash flow for specific crops

- Provide a more timely payment in the year of crop loss
- Help to ensure that financial obligations are met
- Provide collateral for other programs
- Provide more security, and higher recovery of income in the case of a loss

Government Crop Insurance Program premiums are eligible for up to a 100% rebate if Crop Insurance results in a lower CAIS payment. This rebate does not apply to private tobacco crop insurance.

While CAIS by itself provides assurance that the farm income as a whole will be supported to a certain level (depending on your selected coverage), it uses anywhere from 17% to 50% of the farmers own money to do so. Even though it does not provide complete coverage, it does ensure that a farmer's income will not go below the previous 5 year average (or 70% thereof). CAIS is effective as an enterprise wide risk management strategy.

Crop insurance, on the other hand, is a very specific risk management tool. The risk of a decision to grow a certain crop is hedged by direct insurance coverage. Regardless whether the other parts of the farm operation have a good or poor year, the specific cropping investment is guaranteed to provide a rate of return because of the crop insurance. In the event of a crop failure the proceeds from the insurance claim will be there in a timely fashion.

A knowledgeable insurance broker should be able to advise farmers of the optimal amount of insurance coverage to combine with the CAIS program to provide a solid risk management strategy. ♦

432 Simcoe St.
P.O. Box 67
Woodstock, ON
N4S 7W5

Phone (519) 539-6109
Fax (519) 421-1339
Toll Free: 1-877-539-6109

8 Stover St. N
Norwich, ON
N0J 1P0

Phone (519) 863-3126
Fax (519) 863-3756
Toll Free: 1-866-863-3126

45 King St. W
P.O. Box 36
N5C 3K1
Ingersoll, ON

Phone (519) 485-2350
Fax (519) 425-2416
Toll Free: 1-888-485-2350

“Strategy and Direction for Every Stage of Your Farm Business”



VANPARYS MICACCHI SHIPPEY & WARNICK LLP
Chartered Accountants

Strategy and Direction