

RISK MANAGEMENT STRATEGIES
FOR FARM ENTERPRISE DIVERSIFICATION:
RightRisk Management for California Farms

University of California
Agriculture and Natural Resources



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<http://california.erightrisk.com>

RIGHTRISK

What is RISK?

- **Certainty**- lack of doubt

The demand for
certainty is one which is
natural to man, but is
nevertheless an
intellectual vice.



Bertrand Russell
British Philosopher
1872 - 1970

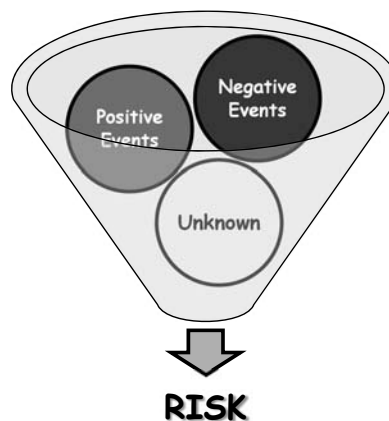
QuoteHD.com

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RIGHTRISK

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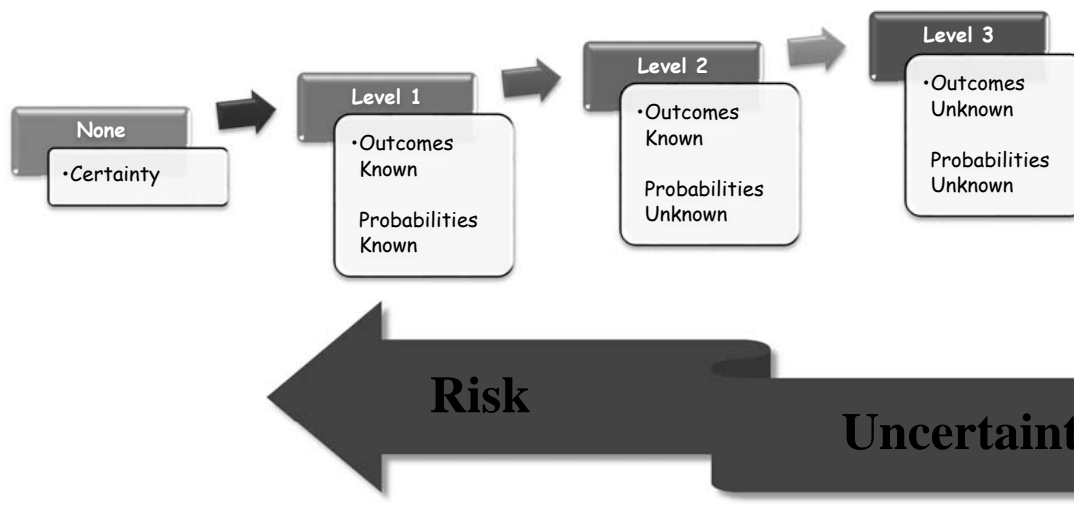
- **Uncertainty**- doubt about future events
- **RISK**- potential variation in the outcome of future events



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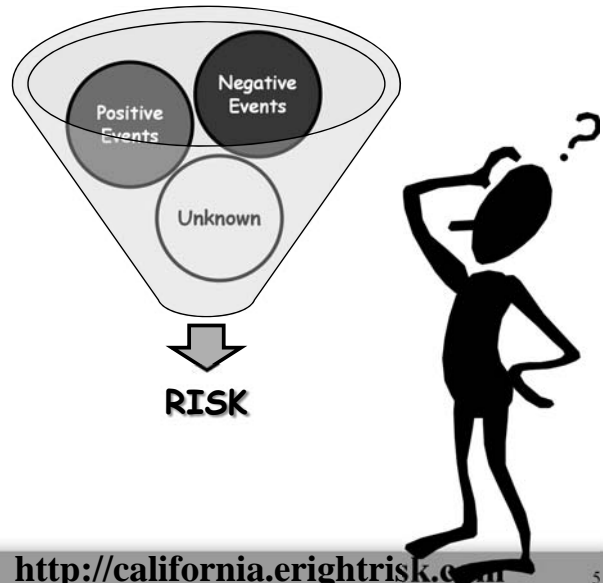
What is RISK?

- **Cost of Loss**

- *Income*
- *Resources*
- *Productive capacity, etc.*

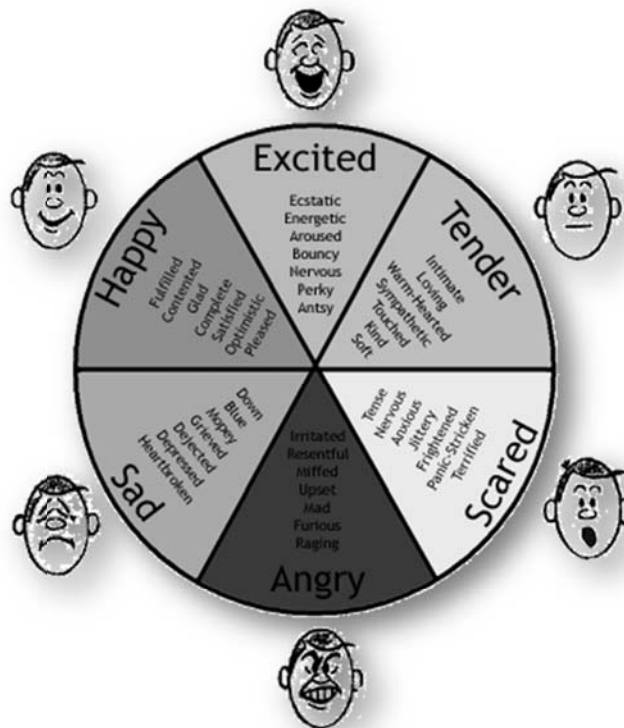
- **Cost of Uncertainty**

- *Worry, doubt, fear, misallocation of resources, etc.*
- *With potential for gain or loss comes moral or ethical implications*



HUMAN Dimension of Risk Management

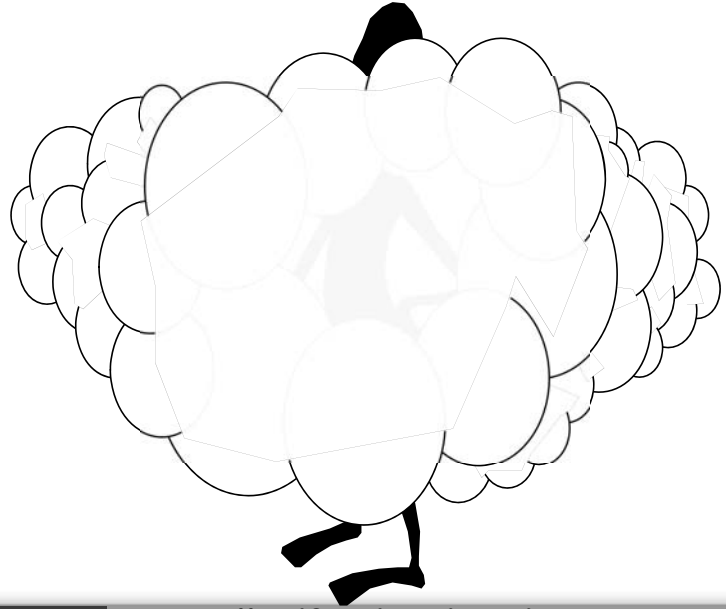
EMOTION



The HUMAN Dimension of Risk Management

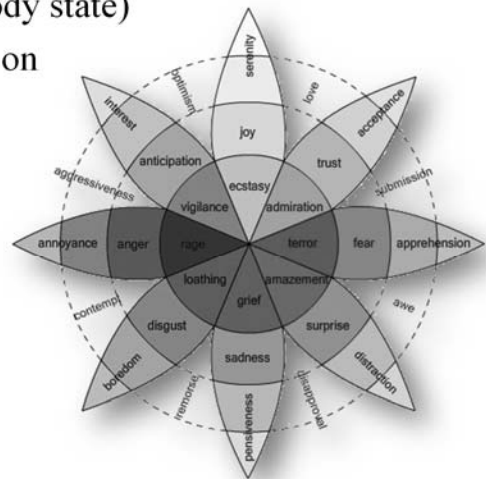
- Emotionally we avoid risk (uncertainty) to avoid the shame of:

- Failure,
- Being wrong,
- Being laughed at
- Being made fun of,
- Loosing the farm, etc.



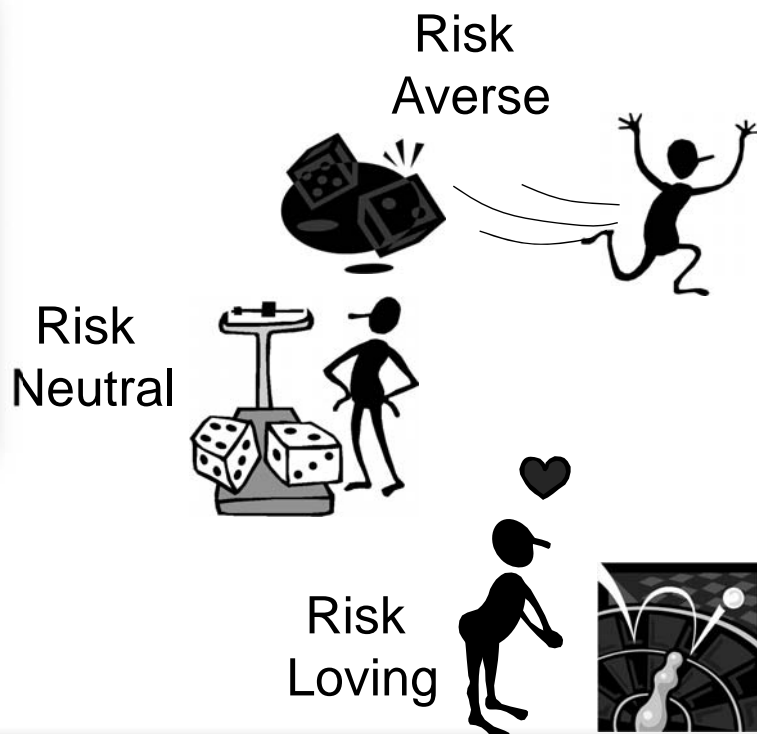
HUMAN Dimension of Risk Management

- Emotions = physical state of our body as it responds to external stimuli
- Emotions are *separate* from our feelings
 - **Emotions**- result in us from our **actions** (body state)
 - **Feelings**- result in us from our **perspective** on our actions (consciousness)
- Emotions have been found by research to be **necessary** for decision making*



* MIT Technology Review, A. Damasio, 2014.

Types of Risk Preference



Personal Perspectives on Risk

- Generational differences
- Gender differences
- Life stage/family differences
- Life experiences

These are dynamic and change over time.



Risk Tradeoffs

***Profits are
returns for
taking risks***



- **Upside:** Greater risk taking usually leads to greater wealth over time
- **Downside:** Losses from risk taking can potentially be devastating
- Managing risks are a matter of **evaluating tradeoffs**
- How much **risk** (uncertainty) are you willing to accept for **possible higher returns**?

Sources of Risk in Agriculture – *Ag Risk 5*

1. Marketing and Price Risk
2. Production Risk
3. Institutional Risk
4. Human Risk
5. Financial Risk



Strategies for Managing Risk

1. **Avoid it**
2. **Reduce it**
 - a) *Reduce the probability it will happen*
 - b) *Reduce the impact if it does happen*
3. **Transfer it outside the business**
 - a) *Insurance*
 - b) *Contracting*
4. **Increase capacity to bare**
 - a) *Increase reserves*
 - b) *Maintain flexibility*
5. **Accept it**



RightRisk

<http://california.erightrisk.com>

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RIGHT RISK™

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Risk Controls

Market Risk - Production Risk - Institutional/Legal Risk - Human Risk - Financial Risk

Market Risk
- risk associated with the uncertainty around markets and prices for inputs and outputs

1. **Livestock Prices**
 - USDA Agricultural Marketing Service: [Colorado Weekly Summary](#)
 - USDA Agricultural Marketing Service: [Montana Weekly Summary](#)
 - USDA Agricultural Marketing Service: [New Mexico Combined WHF Avg - Cattle \(weekly\)](#)
 - USDA Agricultural Marketing Service: [Washington Weekly Livestock Auction Summary](#)
 - USDA Agricultural Marketing Service: [Wyoming Weekly Summary](#)
 - USDA Agricultural Marketing Service: [Livestock and Seed](#)
 - USDA Agricultural Marketing Service: [ALL](#)
 - [Beef Basis](#) provides cattle producers with information and analytics to improve marketing decisions influenced by cattle basis risk.
2. **Grain Prices**
 - USDA Agricultural Marketing Service: [California Weekly Grain Report](#)
 - USDA Agricultural Marketing Service: [Montana Cash Grain Prices](#)
 - USDA Agricultural Marketing Service: [Utah Daily Grain Report](#)
 - USDA Agricultural Marketing Service: [Eastern New Mexico Grain Report](#)
 - USDA Agricultural Marketing Service: [Wyoming/Western Nebraska Elevator Grain Bids](#)
3. **Hay Prices**
 - USDA Agricultural Marketing Service: [California Weekly Hay Report](#)
 - USDA Agricultural Marketing Service: [Colorado Weekly Hay Report](#)
 - USDA Agricultural Marketing Service: [Idaho Weekly Hay Report](#)
 - USDA Agricultural Marketing Service: [Montana Weekly Hay Report](#)
 - USDA Agricultural Marketing Service: [New Mexico Weekly Hay Report](#)
 - USDA Agricultural Marketing Service: [Oregon Weekly Hay Report](#)
 - USDA Agricultural Marketing Service: [Utah Weekly Hay Market Report](#)
 - USDA AMS: [Washington-Oregon \(Columbia Basin\) Weekly Hay](#)
 - USDA AMS: [Wyoming, West Nebraska, and SW South Dakota Hay Report \(weekly\)](#)
 - USDA Agricultural Marketing Service: [Wyoming Weekly Summary](#)
4. **Lease Rates/Grazing Fees**
 - USDA AMS: [Wyoming, West Nebraska, and SW Dakota Grazing Fee Report](#)
 - USDA National Agricultural Statistics Service: [Cash Rents by County](#)
5. **Price Protection (Insurance)**
 - USDA Risk Management Agency: [Livestock Insurance](#), background information

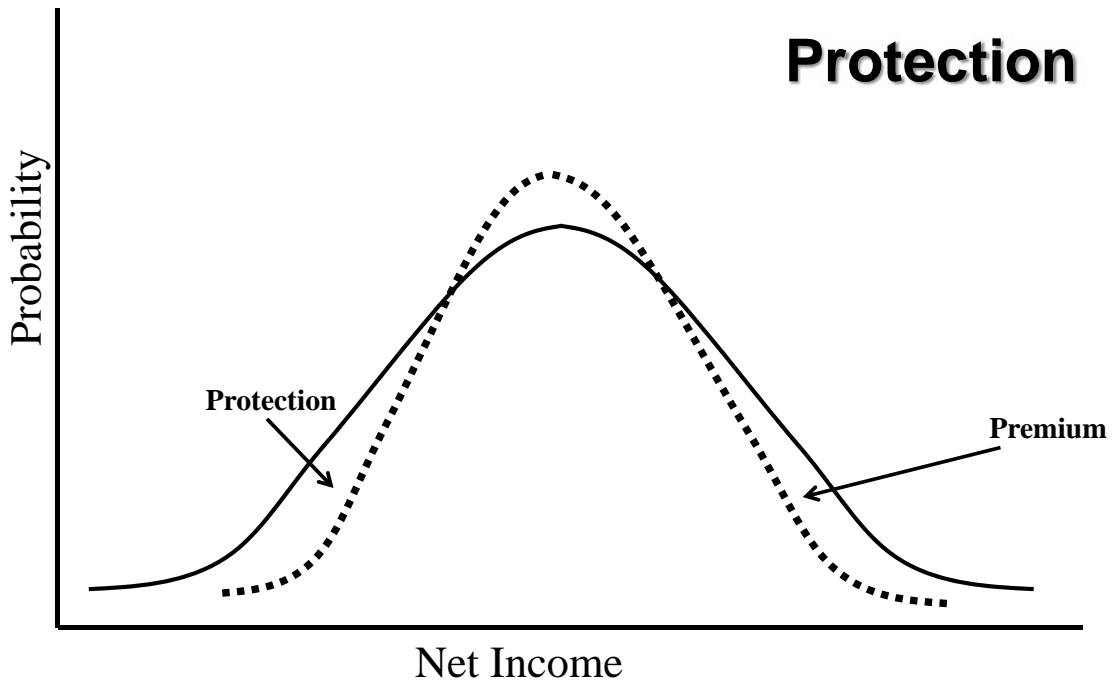


<http://RightRisk.org/controls>

<http://california.erightrisk.com>

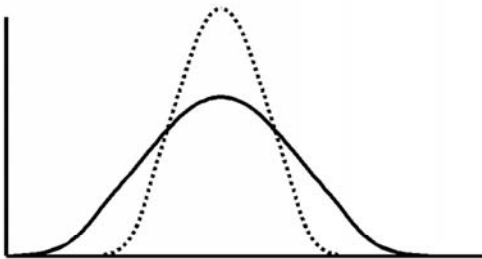
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How much risk is right for you?

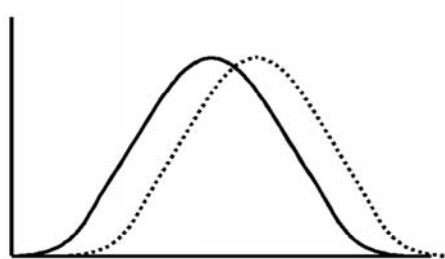


Strategy Impacts

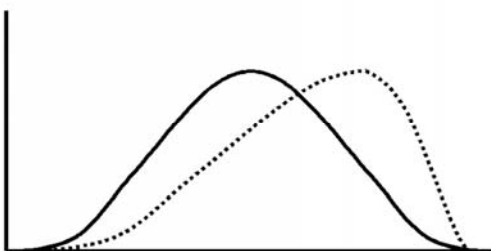
Panel 1: Same Mean, Less Dispersion



Panel 2: Same Dispersion, Higher Mean



Panel 3: Skewing the distribution



Panel 4: Truncating the Distribution



Risk management is an active learning process that involves considering tradeoffs and making decisions to alter or not alter the probability distribution for a future event...



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Current Federal Insurance Options

Insurance Plans Available in CALIFORNIA			
Insurable Crops	Insured Acres	Total Acres	Percent Insured
Alfalfa Seed	11,795	36,280	33%
Almonds	721,275	860,000	84%
Apples	5,562	15,200	37%
Avocados	36,130	55,261	65%
Barley	38,635	95,000	41%
Blueberries	3,771	4,542	83%
Cherries	29,063	40,414	72%
Citrus - 8 types of fruit	229,451	270,000	85%
Corn	184,830	430,000	43%
Cotton & ELS Cotton	309,372	315,000	98%
Beans (Dry)	25,972	47,500	55%
Figs	4,076	7,351	55%
Forage Production	144,193	930,000	16%
Grapes (Table)	81,427	95,000	86%
Grapes (Wine)	498,428	570,000	87%
Grain Sorghum	3,328	4,570	73%
Mint	1,641	2,000	82%
Oats	3,624	10,000	36%
Olives	25,557	42,779	60%
Onions	19,570	43,900	45%
Pears	8,455	11,600	73%
Pecans	1,370	3,600	38%
Pistachios	90,097	203,000	44%
Potatoes	23,680	33,500	71%
Prunes	45,972	50,000	92%
Rice	478,856	495,000	97%
Rice (Cultivated Wild)	12,444	13,000	96%
Safflower	35,268	55,000	64%
Stonefruit (Includes Plums)	70,125	102,073	69%
Strawberries	26	41,500	1%
Sugar Beets	4,454	24,500	18%
Tomatoes (Fresh)	11,313	28,000	40%
Tomatoes (Processing)	278,058	288,000	97%
Walnuts	148,497	290,000	51%
Wheat	271,829	585,000	46%
Dollar Liability Program		Total Dollar Liability	
Adjusted Gross Revenue			\$35,427,458
Apiculture (Rainfall Index)			\$28,811,523
Forage Seeding			\$2,288,715
Livestock Gross Margin (LGM) Dairy			\$58,023,160
Livestock Risk Protection (LRP) Feeder Cattle and Lamb			\$11,994,519
Nursery			\$140,832,241
Pasture, Rangeland, Forage (Rainfall Index)			\$41,605,195
Raisins			\$196,817,340

Program	County Availability
Adjusted Gross Revenue	Fresno, Kern, Riverside, San Diego, San Joaquin, San Luis Obispo, Tulare, and Ventura Counties
Apiculture (Rainfall Index)	All Counties
Avocados	Orange, Riverside, San Diego, San Luis Obispo, Santa Barbara, and Ventura Counties
Cherries	Butte, Contra Costa, Fresno, Kern, Kings, Madera, Merced, Placer, Sacramento, San Benito, Santa Clara, San Joaquin, Stanislaus, Sutter, Tulare, and Yuba Counties
Forage (Alfalfa) Seed	Kings and Fresno Counties
Strawberries	Fresno, Merced, Monterey, Santa Barbara, Santa Cruz, and Ventura Counties
Citrus (Rainfall Index)	Fresno, Kern, Madera, and Tulare Counties
PRF (Rainfall Index)	All Counties
Olives	Butte, Colusa, Fresno, Glenn, Tehama, Kern, Madera, San Joaquin, Shasta, Stanislaus, Sutter, Tulare, Yolo
Pistachios	Alameda, Butte, Colusa, Contra Costa, Fresno, Glenn, Kern, Kings, Madera, Merced, Riverside, San Benito, San Bernardino, San Joaquin, San Luis Obispo, Santa Barbara, Stanislaus, Sutter, Tehama, Tulare, Yolo, Yuba Counties

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2014 California Crop Insurance Profile

Regional Office
 Contact: Jeff Yasui, Director
 Address: 430 G Street #4168
 Davis, CA 95618
 Phone: (530) 792-5870
 Fax: (530) 792-5883
 E-Mail: jeff.yasui@rma.usda.gov

Western Regional Compliance Office
 Contact: Susan Choy, Director
 Address: 430 G Street #4167
 Davis, CA 95618
 Phone: (530) 792-5860
 Fax: (530) 792-5885
 E-Mail: susan.choy@rma.usda.gov

Data as of January 2014

<http://www.rma.usda.gov/pubs/2015/stateprofiles/california14.pdf>

California Fifteen Year Crop Insurance History

Year	Policies Earning Premium	Net Acres Insured	Liability	Gross Premium	Losses	Loss Ratio
2000	29,191	4,276,811	2,796,253,781	143,343,081	92,359,660	0.64
2001	27,958	4,010,128	2,690,254,801	142,519,840	117,359,756	0.82
2002	27,200	3,920,007	2,633,618,262	146,356,279	79,069,948	0.54
2003	26,471	3,990,438	2,951,841,797	150,191,677	79,366,135	0.53
2004	25,028	3,908,123	3,153,568,412	157,913,094	83,152,323	0.53
2005	24,859	3,818,813	3,317,832,621	168,996,411	92,497,107	0.55
2006	24,490	3,732,688	3,658,867,941	186,617,268	88,506,353	0.47
2007	24,207	3,780,829	3,708,288,115	187,455,253	154,139,100	0.82
2008	24,074	3,810,375	3,911,645,612	197,920,945	89,455,031	0.45
2009	24,723	3,932,306	4,648,316,411	243,273,227	177,694,925	0.73
2010	24,649	3,752,230	4,493,432,544	219,282,609	111,142,020	0.51
2011	24,726	4,062,207	4,792,588,280	248,898,972	110,209,054	0.44
2012	25,462	4,600,044	5,384,444,735	260,903,031	112,207,209	0.43
2013	25,426	5,238,284	6,135,260,032	268,391,743	129,091,231	0.48
2014*	26,300	6,765,108	7,720,921,518	302,184,580	302,683,204	0.77

* 2014 numbers are incomplete



<http://california.erightrisk.com>

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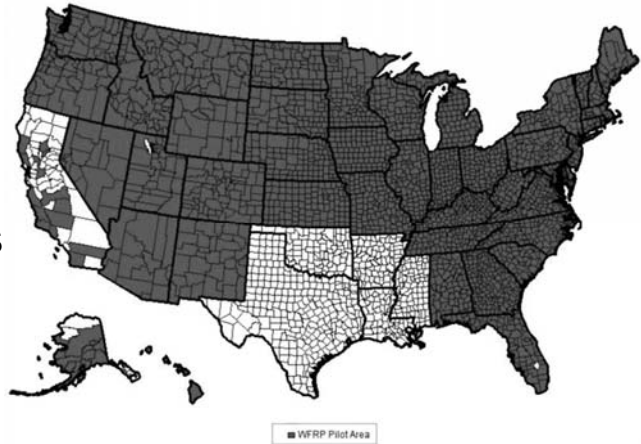


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Whole-Farm Revenue Protection

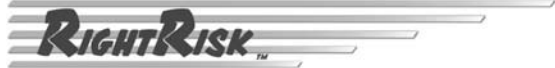
- A whole-farm insurance product that provides producers with risk management protection for all eligible commodities on the farm under **one insurance policy**

- WFRP is a combination of Adjusted Gross Revenue (AGR) and Adjusted Gross Revenue-Lite (AGR-Lite) policies



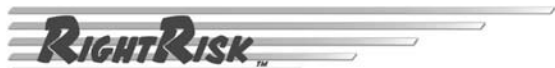
<http://www.rma.usda.gov>

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Whole-Farm Revenue Protection cont.

- Coverage is based on:
 - The operation's whole-farm **historic average revenue and expenses** using information from five consecutive tax years before the insurance year (adjusted according to the WFRP policy and procedures)
- An indemnity payment occurs when:
 - *Allowable Revenue* during the insurance year **falls below** the *Insured Revenue* (the amount of revenue the farm operation is expected to earn during the insurance year multiplied by the coverage level elected)



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Whole-Farm Revenue Protection cont.

COMPARISON	WFRP	AGR-Lite	AGR
Liability Limit	\$8.5 Million	\$1 Million	\$6.5 Million
Coverage Level	50-85 in 5% increments	65, 75, 80*	65, 75, 80*
	3 Commodities for 80 and 85%	*3 Commodities	*3 Commodities
One Commodity	Not eligible for WFRP if only one commodity and that commodity has an MPCI revenue product available.	No Restriction	No Restriction
Payment Rate	None	75, 90	75,90
Animal or Animal Product Limit	35% of expected revenue or up to \$1 million (Max)	None	35 % of Expected Income
Nursery and Greenhouse Limit	35% of expected revenue or up to \$1 million (Max)	None	None
Potato Requirement	Minimum of 2 Commodities (with calculation)	Minimum of 2 Commodities (with calculation)	Minimum of 2 Commodities (with calculation)
Replant Payments	Up to 20 percent of expected revenue for annual commodity with 20 acres or 20 percent of crop needing replant. Not allowed if also insured under MPCI with replant provisions.	None	None
Other Federal Crop Insurance	Optional - MPCI -buy up coverage level only for both WFRP and MPCI. No CAT level MPCI allowed.	Optional	MPCI required if 50% of expected income from MPCI crops
Market readiness amounts in insured revenue	Yes	No	No
Expanding operations	Average allowable historic revenue increased by 10% if you can prove expansion and approved by AIP, to allow for minor farm growth that might not trigger indexing.	No	No
Cancellation/Termination	Same as sales closing date for county. (2/28, 3/15)	31-Jan	31-Jan
Contract Change	31-Aug	31-Aug	31-Aug
Sales Closing Date	In Actuarial Documents-same as dates for spring crops for county: 2/28 and 3/15 depending on county	March 15 New Jan 31 Carryover	31-Jan
Rating Methodology	Same as AGR	Same as AGR	Rates revenue variability of individual commodities.



Whole-Farm Revenue Protection cont.

USDA United States Department of Agriculture

A Risk Management Agency Fact Sheet

Whole-Farm Revenue Protection for Federal Crop Insurance

November 2014

Whole-Farm Revenue Protection
Whole-Farm Revenue Protection (WFRP) provides a risk management safety net for all commodities on the farm under one insurance policy. This insurance plan is tailored for any farm with up to \$8.5 million in insured revenue, including farms with specialty or organic commodities (both crops and livestock), or those marketing to local, regional, farm-to-table, specialty, or direct markets.

Availability

Causes of Loss
WFRP provides protection against the loss of insured revenue due to an unavoidable natural cause of loss, that occurs during the insurance period and will also provide carryover loss coverage if you are insured the following year. See the policy for a list of covered causes of loss.

Important Dates
Sales Closing, Cancellation, & Termination Dates
County Specific February 28 or March 15
Revised Farm Operation Report Dates
Calendar Year Files July 15
Early Fiscal Year Files July 15
Late Fiscal Year Files: Fiscal Year Begins
August or September 30 days after start of fiscal year
October, November, or December October 31
Contract Change Date August 31
Talk to your crop insurance agent about the dates that apply for your county.

This fact sheet gives only a general overview of the crop insurance program and is not a complete policy. For further information and an evaluation of your risk management needs, contact a crop insurance agent.

Insurance Year
The insurance year is a calendar year if taxes are filed by calendar year, or a fiscal year if taxes are filed on a fiscal year.

Reporting Requirements
Revenue Losses - You must submit a notice of loss within 72 hours after discovery that revenue for the insurance year could be below the insured revenue. Inspections may be required for losses. You must have filed farm taxes for the insurance year before any claim can be made. You must make claims no later than 60 days after the date you submit farm tax forms to the Internal Revenue Service (IRS). Claim payments for a revenue loss under WFRP are paid within 30 days after the determination of a payment due as long as you are in compliance with the policy.

Coverage
WFRP protects your farm against the loss of farm revenue that you expect to earn or will get from:

- Commodities you produce during the insurance period, whether they are sold or not;
- Commodities you buy for resale during the insurance period; and
- All commodities on the farm except timber, forest, and forest products, and animals for sport, show, or pets.

The policy also provides replant coverage:

- For annual crops, except those covered by another policy;
- Equal to the cost of replanting up to a maximum of 20 percent of the expected revenue; and
- When 20 percent or 20 acres of the crop needs to be replanted.

The approved revenue amount is determined on your Farm Operation Report and is the lower of the expected revenue or your whole-farm historic average revenue. Coverage levels range from 50 percent to 85 percent. Catastrophic Risk Protection (CAT) coverage is not available. The number of commodities produced on the farm are counted using a calculation that determines:

- If the farm has the diversification needed to qualify for the 80 and 85 percent coverage levels (there is a 3 commodity requirement);

Eligibility
Eligibility for WFRP coverage requires you to:

- Be a U.S. citizen or resident;
- File either a Schedule F tax form or other farm tax form that can be converted to a Substitute Schedule F;
- Have 5 consecutive years of farm tax history (for the 2015 WFRP insurance year, farm tax records from 2009-2013 must be available);
- Produce at least 50 percent of your agricultural commodities in counties where WFRP is available and the balance in neighboring counties;
- Have no more than \$8.5 million in insured revenue, which is the farm revenue allowed to be insured under the policy multiplied by the coverage level you select (see table above);
- Have no more than 50 percent of total revenue from commodities purchased for resale;
- Have "top-up" coverage levels on any Federal crop insurance plans you choose with the WFRP insurance plan.

Information You Provide
There are certain documents you must provide to your crop insurance agent to get Whole-Farm Revenue Protection insurance. For the Whole-Farm History Report you must provide:

- 5 consecutive years of Schedule F or other farm tax forms (it must be possible to convert a Substitute Schedule F form if you filed farm tax forms other than Schedule F). For the 2015 insurance year, tax

Whole-Farm Revenue Protection



USDA FSA United States Department of Agriculture Farm Service Agency

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You are here: [FSA Home](#) / [Disaster Assistance Programs](#) / Noninsured Crop Disaster Assistance Program (NAP)

Disaster Assistance Programs

Noninsured Crop Disaster Assistance Program

Provides financial assistance to producers of noninsurable crops when low yields, loss of inventory or prevented planting occurs due to natural disasters.

Noninsured Crop Disaster Assistance Program (NAP) Related Information -

- [Access the Online NAP Tool by clicking this link](#)
- [2015 and subsequent crop year basic provisions display](#). (.PDF, 229 KB)
- [View NAP Program Fact Sheet](#)
- [Noninsured Crop Disaster Assistance Program; Interim Rule](#) (PDF, 416 KB, Dec 15, 2014)

Related Topics

- [Emergency Assistance for Livestock, Honey Bees, and Farm-raised Fish \(ELAP\)](#)
- [Emergency Forest Restoration Program \(EFRP\)](#)
- [Livestock Forage Program \(LFP\)](#)
- [Livestock Indemnity Program \(LIP\)](#)
- [Noninsured Crop Disaster Assistance Program \(NAP\)](#)
- [Tree Assistance Program \(TAP\)](#)

I Want To...

- [View CCC-471 NAP Basic Provisions \(229 KB\)](#)

www.fsa.usda.gov/nap

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Noninsured Crop Disaster Assistance Program (NAP): **ELIGIBLE** crops

- **ELIGIBLE CROPS:**
 - Any commercial agricultural crop (excluding livestock and their by-products), commodity, or acreage of a commodity **grown for food or fiber**, and commercial or industrial crops for which CAT or additional coverage is not available
 - **Biomass crops** or feedstock crop grown for purpose of producing bio-based product
- **CROPS NOT ELIGIBLE:**
 - Where CAT or additional level of insurance coverage **IS** available
 - Where Group Risk Protection insurance **IS** available



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Noninsured Crop Disaster Assistance Program (NAP): Coverage Summary

- NAP available through 2018 crop years:
 - **CAT-level** coverage 50/55, and
 - **Buy-up** coverage
 - 50, 55, 60 or 65 percent coverage at 100 percent of the established market price
- Protects against eligible causes of loss during the coverage period before or during harvest: drought, hail, excessive moisture, freeze, tornado, hurricane, excessive wind, insufficient chill hours (limited), earthquake, flood, volcanic eruption
- Market price established by FSA as an **average market price** for the eligible crop



27

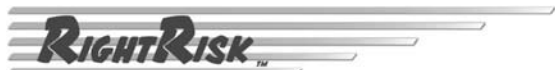
Noninsured Crop Disaster Assistance Program (NAP): Coverage Updates

Organic Crop Option

- May receive payment based on an organic price if:
 - RMA has established a separate organic price in the State
 - Producers elect the organic option on CCC-471
 - Acreage is certified organic or exempt from certification according to the National Organic Program regulations
 - A copy of organic system plan provided to FSA

Direct Market Price Option

- May receive payment based on a direct market price if:
 - Buy-up coverage is elected with direct market price option
 - Sufficient data is available for FSA to approve separate average market prices within a State



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Noninsured Crop Disaster Assistance Program (NAP): BUY-UP Coverage cont.

- **Premium calculation:**

- Eligible acres
- X Producer share
- X Approved yield
- X Coverage level
- X 100% of market price
- X 5.25 percent

- ❖ *NAP fees or buy-up premiums are reduced by 50 percent for:*
 - *Beginning farmers (BF)*
 - *Limited resource farmers (LR)*
 - *Socially disadvantaged farmers (SDA)*

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Payment Limits

- **NO** person or legal entity, may receive directly or indirectly more than:
 - \$125,000 total in payments under LFP, LIP, and ELAP combined
 - \$125,000 total in payments under NAP
 - \$125,000 total in payments under TAP
- An individual or legal entity is **ineligible** for payments where average adjusted gross income (AGI) exceeds \$900,000
- A producer may receive benefits under a buy-up policy for crop insurance and LFP/LIP/ELAP/NAP/TAP, but combined benefits **may not exceed the loss**



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Farm Service Agency: Noninsured Crop Disaster Assistance Program (NAP)

USDA FSA
FACT SHEET
UNITED STATES DEPARTMENT OF AGRICULTURE
FARM SERVICE AGENCY
August 2011
Noninsured Crop Disaster Assistance Program (NAP) for 2011 and Subsequent Years

Overview
USDA's Farm Service Agency's (FSA) Noninsured Crop Disaster Assistance Program (NAP) provides financial assistance to producers of noninsurable crops when low yields, loss of inventory or prevented planting occur due to a natural disaster.

Eligible Producers
An eligible producer is a landowner, tenant or sharecropper who shares in the risk of producing an eligible crop and is entitled to an ownership share of that crop. As authorized by the Food, Conservation, and Energy Act of 2008 (2008 Act), an individual's or entity's average nonfarm adjusted gross income (AGI) limitation cannot exceed \$100,000 to be eligible for NAP.

Eligible Crops
Eligible crops must be commercially produced agricultural commodity crops for which the catastrophic risk protection level of crop insurance is not available and be any of the following:

- Crops grown for food.
- Crops planted and grown for livestock consumption, including, but not limited to grain and forage crops, including native forage.
- Crops grown for fiber, such as cotton and flax (except for hemp).
- Crops grown in a controlled environment, such as mushroom and floriculture.
- Specialty crops, such as honey and maple sap.
- Value loss crops, such as aquaculture, Christmas trees, gening, ornamental nursery

and turfgrass sod.
Sea oats and sea grass sod.
Seed crops where the propagation stock is produced for sale as seed stock for other eligible NAP crop production.

Producers must contact a crop insurance agent for questions regarding insurability of a crop in their county.

For further information on whether a crop is eligible for NAP coverage, producers must contact the FSA county office where their farm records are maintained.

Eligible Natural Disaster
An eligible natural disaster is any of the following:

- Damaging weather, such as drought, freeze, hail, excessive moisture, excessive wind or hurricane;
- An adverse natural occurrence, such as earthquake or flood. A condition related to damaging weather or an adverse natural occurrence, such as excessive heat, plant disease, volcanic smog (VVOG), insect infestation or;
- Any combination of these conditions.

The natural disaster must occur during the coverage period, before or during harvest and must directly affect the eligible crop.

Applying for Coverage
Eligible producers must apply for coverage of noninsurable crops using Form CCC-471, "Application for Coverage," and pay the applicable service fee at the FSA office where their farm records are maintained. The application and service fee must be filed by the application closing date as established by the FSA State Committee.

The service fee is the lesser of \$230 per crop or \$750 per producer per administrative county, not to exceed a total of \$1,875 for a producer with farming interests in multiple counties. This fee is authorized by the 2008 Act.

Limited resource producers may request a waiver of the service fee. To qualify for an administrative service fee waiver, the producer must meet both of the following criteria:

- Earn no more than \$100,000 gross income in farm sales from each of the previous two years (to be increased starting in FY 2004 to adjust for inflation, using the prices paid by farmers index as compiled by the National Agricultural Statistics Service (NASS));
- Have a total household income at or below the national poverty level for a family of five, or less than 50 percent of county median household for both of the previous two years.

Limited resource producer status may be determined using the USDA Limited Resource Farmer and Rancher Online Self-Determination Tool located on the Limited Resource Farmer and Rancher - (LRF/R) home page at www.fns.usda.gov/naps/limited. The automated system calculates and displays adjusted gross farm sales per year and the higher of the national poverty level or county median household income.

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Page 1

USDA FSA
FACT SHEET
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FARM SERVICE AGENCY
August 2011
Noninsured Crop Disaster Assistance Program (NAP) for 2011 and Subsequent Years

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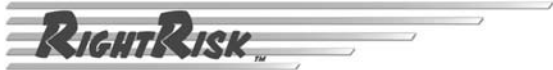
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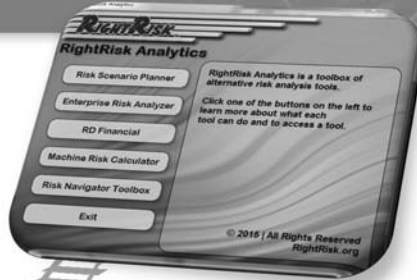
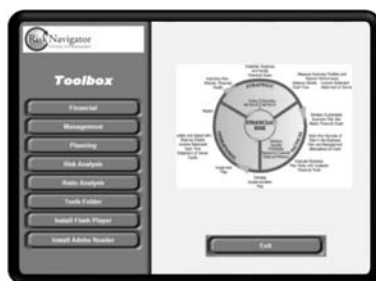
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Page 1

www.fsa.usda.gov/nap



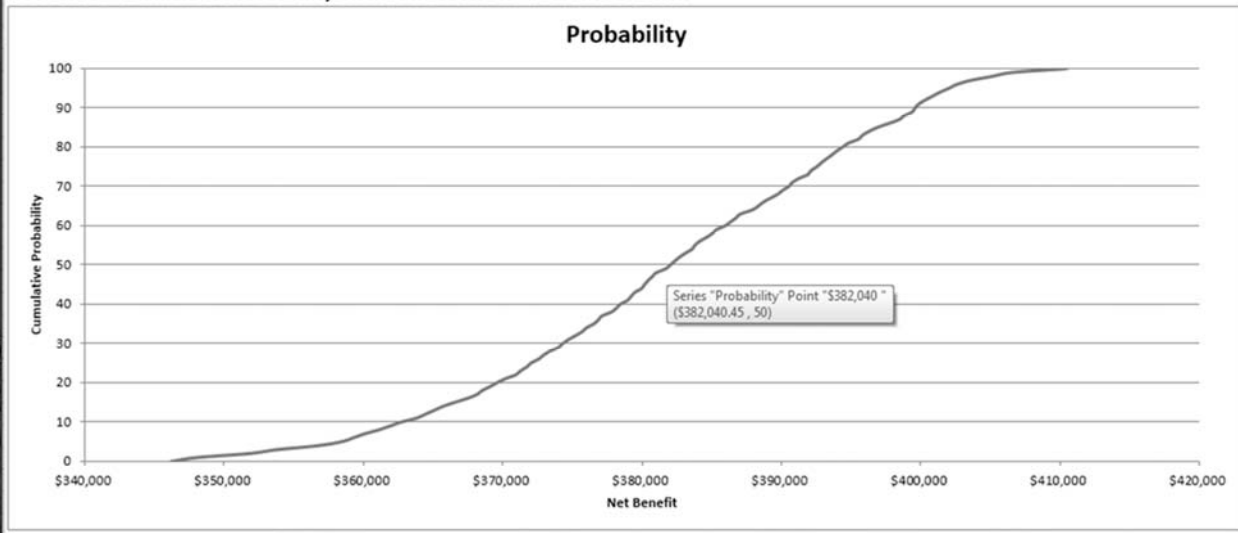
Evaluating Alternatives



Risk Scenario Planning

RIGHT RISK				LRP Insurance Decision			
Partial Budget For:							
Positive Effects				Negative Effects			
Added Returns	Quantity	Value	Total	Added Costs	Quantity	Value	Total
Basis Value	0	\$ 10.00	\$ -	LRP Premium	1650	\$ 5.18	\$ 8,547.00
LRP Price Index	0	\$ 215.00	\$ -				\$ -
LRP Coverage Price	0	\$ 239.79	\$ -				\$ -
			\$ -				\$ -
Calf Sales (cwt.)	1650	\$ 215.00	\$ 354,750.00				\$ -

Net Benefit Cumulative Probability Distribution For: LRP Insurance Decision



Current Value (Most Likely)	215
Minimum Value	200
Maximum Value	250

Current Value (Most Likely)	10
Minimum Value	5
Maximum Value	20



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Machine Risk Calculator



HOME

Machine Risk Calculator Navigation
 Select the type of machinery or equipment to evaluate by choosing one or more of the following:

- Powered Equipment
- Implement #1
- Implement #2
- Implement #3
- Vehicle
- Powered Irrigation Equipment
- Non-Powered Irrigation Equipment
- Field Operation Costs and Risk Analysis

HOME Navigation PowerUnit ImplementOne ...

RIGHT RISK

How Much Risk Is Right For You?
 Technical Guide (August, 2014 #TG-14-08)

Machine Risk Calculator

Dr. Jay Parsons - University of Nebraska
 John P. Hewlett - University of Wyoming

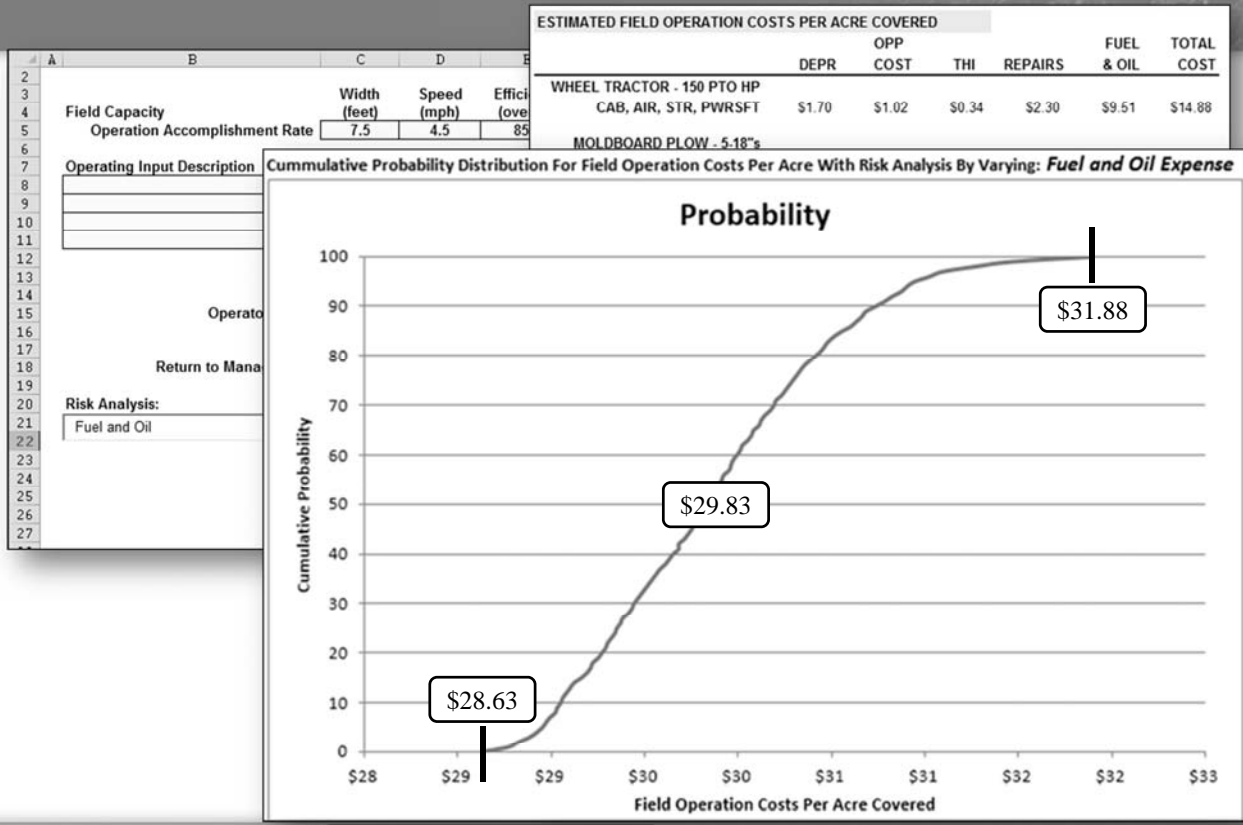
Calculating the cost of machinery services, operation costs, and risk.

USDA RMA UNIVERSITY OF WYOMING Nebraska EXTENSION



<http://california.erightrisk.com>

Machine Risk Calculator



<http://california.erightrisk.com>

Enterprise Risk Analyzer



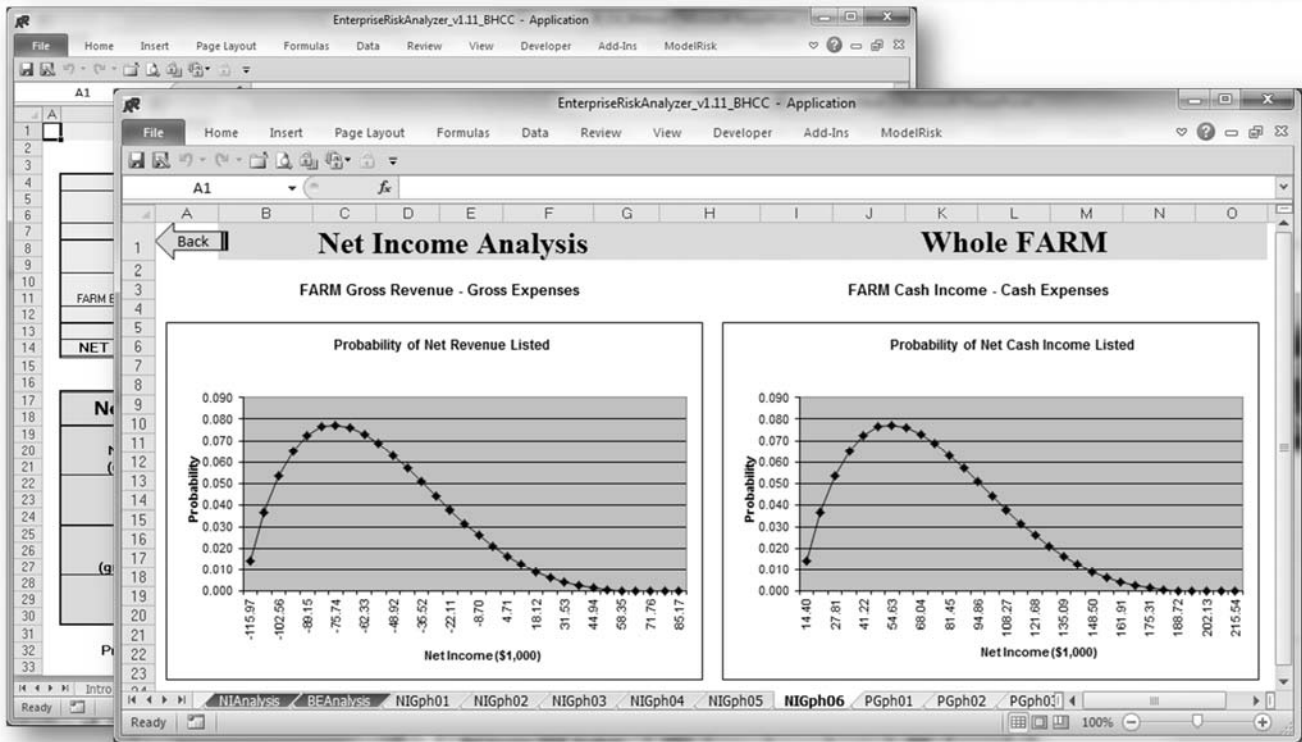
	Cow-Calf	Native Hay	Oat Hay	Alfalfa Establishment	Alfalfa - Baled
FARM REVENUE					
TOTAL FARM INCOME - CASH	121,759.00	12,380.00	2,802.00	2,306.00	25,040.00
TOTAL NON-CASH INCOME ADJUSTMENTS					
GROSS FARM REVENUE	121,759.00	12,380.00	2,802.00	2,306.00	25,040.00
FARM EXPENSES					
FARM EXPENSES - CASH	86,843.00	6,557.00	1,756.00	2,297.00	12,072.00
FARM EXPENSES - NON-CASH EXPENSE ADJUSTMENTS	98,550.00	11,245.00	2,709.00	2,536.00	15,331.00
GROSS FARM EXPENSES	185,393.00	17,802.00	4,465.00	4,833.00	27,403.00
NET FARM INCOME FROM OPERATIONS	(63,634.00)	(5,422.00)	(1,663.00)	(2,527.00)	(2,363.00)
Break-Even PRICE Analysis					
YIELD PER ENTERPRISE UNIT					
Maximum	400	1.75	4	4	4
Most Likely	373.97	1.5	3	2.54	3
Minimum	350	1	1.5	1.5	1.5
BREAK-EVEN PRICE - CASH EXPENSES					
Minimum	0.59	32.30	33.77	44.17	29.02
Most Likely	0.64	37.68	45.03	69.56	38.69
Maximum	0.68	56.53	90.05	117.79	77.38
BREAK-EVEN PRICE - GROSS EXPENSES					
Minimum	1.27	87.69	85.87	92.94	65.87
Most Likely	1.36	102.31	114.49	146.37	87.83
Maximum	1.45	153.47	228.97	247.85	175.66
Probability Analysis (click button at right)	<input type="button" value="Graph"/>	<input type="button" value="Graph"/>	<input type="button" value="Graph"/>	<input type="button" value="Graph"/>	<input type="button" value="Graph"/>



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Enterprise Risk Analyzer

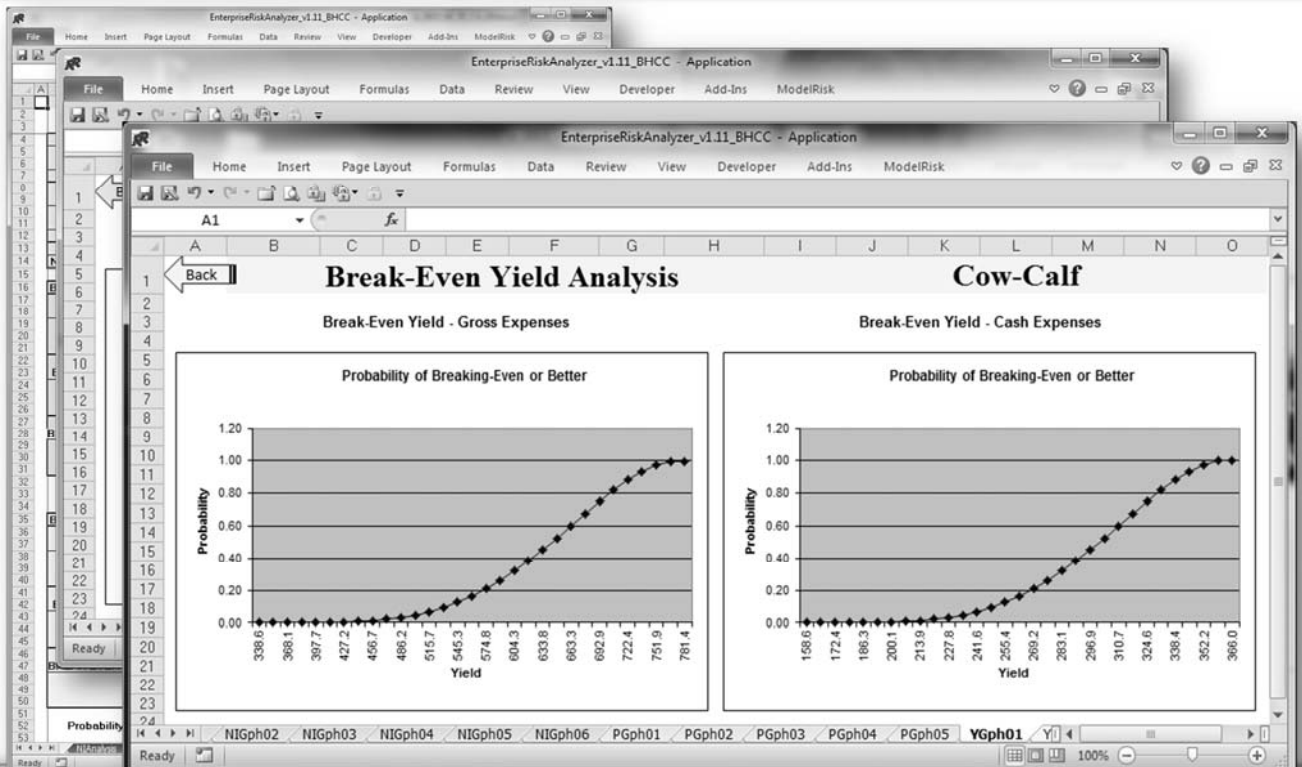
Net Return Analysis



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Enterprise Risk Analyzer

Breakeven Analysis



<http://california.erightrisk.com>

RD Financial

Introduction Enter Data Financial Statements Ratios Credit Scoring Family Living, Revenues, Expenses

Adobe Flash Player 10

File View Control Help

Introduction Enter Data Financial Statements Ratios Credit Scoring Family Living, Revenues, Expenses

Off/On	Liquidity	Beginning	Ending
	Current Ratio	7.26	8.21
	Working Capital	\$215,552	\$248,383

Off/On	Solvency	Beginning	Ending
	Debt/Asset Ratio	0.179	0.172
	Equity/Asset Ratio	0.821	0.828
	Debt/Equity Ratio	0.22	0.208

Off/On	Profitability	Ending
	Rate of Return on Business Assets	4.96%
	Rate of Return on Business Equity	4.58%
	Operating Profit Margin Ratio	0.13
	Net Business Income	\$110,890

Off/On	Repayment Capacity	Ending
	Term Debt and Capital Lease Coverage Ratio	2.37
	Capital Replacement and Term Debt Repayment Margin	\$33,482

Off/On	Financial Efficiency	Ending
	Asset Turnover Ratio	0.38
	Operating Expense Ratio	0.73
	Depreciation Expense Ratio	0.06
	Interest Expense Ratio	0.03
	Net Farm Income From Operations Ratio	0.18

Check Sum 100.00%

Save, Load, Delete

Mouse Over for Help

Owner Withdrawals \$100,000

Nonfarm Inflows #1 \$0

Nonfarm Inflows #2 0

Percent Crop Revenue 100%

Percent Livestock Revenue 100%

Percent Operating Expenses Borrowed 50%

Percent Crop Cost of Production 100%

Percent Livestock Cost of Production 100%

Percent Government Payments 100%

Reset Print Cash Income Toggle Off/On Deferred Taxes Off/On Income Tax Off/On

Statement - Accrual Adj.		Income
ome (Net of cull lvstk sales)		\$554,721
sh Income Adjustments		0
sh Income (Raised Brdo Lvstk)		17,500
Gain/Loss on Breeding Lvstk (Net)		140
Gross Revenue		\$572,361
Expense		
Expense (Excluding Interest)		425,848
sh Feed Inventory Adjustment		0
on-Cash Non-Interest Expense		0
ation (Land, Bldgs, Equip.)		65,500
Total Operating Expense		491,348
t. Exp. - T.D. & C.L.		28,759
t. Exp. - Operating		8,027
sh Interest Expense		(3,455)
Total Expense		\$524,679
Business Income From Operations		47,681
Business Income		47,681
*SS+Def. Tax--Cash & Non-Cash		0
Time		\$47,681

Statement of Owner Equity		Accrual
End of Net Worth (Cost/Mrkt)		3,548,356
Business Cash Inflows	+	47,681
Withdrawals (Cash)	-	50,000
Realization Change/Cont./Distrib.	+/-	\$0
End of Net Worth	=	3,546,037
End of Net Worth (Cost/Mrkt)		3,546,037
Discrepancy		\$0

Save, Load, Delete

Percent Crop Cost of Production 100%

Percent Livestock Cost of Production 100%

Percent Government Payments 100%

Off/On Income Tax Off/On

<http://california.erightrisk.com>

Risk Navigator Tool Box

Risk Navigator STRATEGIC RISK MANAGEMENT

Toolbox

Financial

Management

Planning

Risk Analysis

Ratio Analysis

Tools Folder

Install Flash Player

Install Adobe Reader

Exit

Applied Risk Management in Agriculture Dana L. Hoag, edit

James C. Aleshugh, Ed. PhD Catherine L. Johnson, Ed. PhD
 Elissa Faltenshauer, Ed. PhD Jay Peterson, Ed. PhD
 Duane Gortner, Ed. PhD Susan Pritt, Ed. PhD
 John F. Heston, Ed. PhD Kaitlin Sprague, Ed. PhD

Establish Business and Family Financial Goals

Measure Business Position and Historic Performance

Inventory Risk Attitude, Financial Health

Ending Net Worth Beginning Net Worth

Replan

Develop Sustainable Business Plan that Meets Financial Goals

Operational and Adjust with: Balance Sheets Income Statement Cash Flow Statement of Owner Equity

Determine Sources of Risk in the Business Plan and Management Alternatives for Each

Implement Plan

Develop Implementation Plan

Evaluate Business Plan Risks with Available Financial Tools

FINANCIAL RISK

STRATEGIC

OPERATIONAL

TACTICAL

Solvency Liquidity Profitability Repayment Capacity Financial Efficiency

-Balance Sheets -Income Statement -Cash Flow -Statement of Owner

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RR Analytics – CALIFORNIA

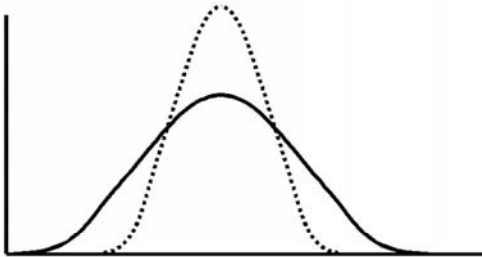


<http://california.erightrisk.com>

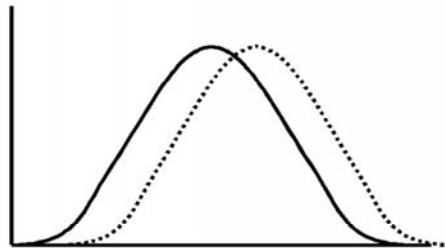
43

Strategy Impacts

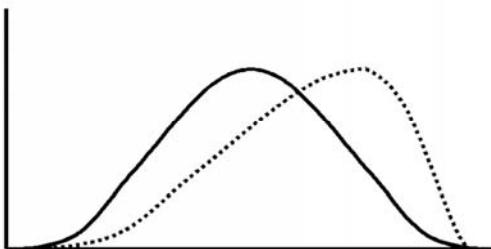
Panel 1: Same Mean, Less Dispersion



Panel 2: Same Dispersion, Higher Mean



Panel 3: Skewing the distribution



Panel 4: Truncating the Distribution



<http://california.erightrisk.com>

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The collage features several CD-ROMs with titles such as "A LASTING LEGACY", "Insuring Success for Wyoming Agriculture 2008", "Getting on Track: Better Management Through Basic Ag Records", and "Pasture, Rangeland, Forage (PRF) Pilot Insurance Program". A book cover for "Applied Risk Management in Agriculture" edited by Dana L. Hoag is also visible. Software screenshots include "RightRisk Analytics" with a menu of tools like "Risk Scenario Planner" and "Enterprise Risk Analyzer", and "RightRisk IRME" (Institute for Risk Management Education) with a list of self-directed courses.

<http://RightRisk.org>

Risk Management Profiles



RISK MANAGEMENT PROFILES

Paul told his dad that that is exactly what they talked about in his class as well. In class they used athletes instead of doctors as the comparison.

Benchmarking in Agriculture

Paul was home from college on break and was talking to his parents about a class he had just completed. He told his parents that he learned about a powerful management tool called benchmarking that is becoming popular for agricultural producers to use.

He pointed out how benchmarks allow producers to measure both their financial and production performance compared to previous years and/or other producers and agricultural businesses.

Jack, Paul's dad, said that he had just read about benchmarks in a recent farm magazine. The magazine article compared benchmarks in agriculture to going to a doctor's office for a check-up. When you go to the doctor, they gather information, such as your blood pressure, your pulse, your temperature, and other information they deem necessary for determining your medical health. Each measurement has some general guideline of what the measure should be.

For example, the temperature for a healthy adult should be between 97.8 and 99.1 degrees F. Anything outside this range might indicate a potential health problem. Being outside the range does not specify what the problem is, but it gives the doctor and patient an indicator that some action may be necessary.

Jack said the magazine article identified several financial benchmarks or industry guidelines that have been established for agricultural businesses to use to help them identify strengths and weaknesses in their business.

The final steps are to plan and introduce changes based on what is learned.

Liquidity Benchmark

The Current Ratio:
Measures cash flow and ability to pay bills on time

Current Ratio = Current Farm Assets divided by Current Farm Liabilities

Source of Information:
Balance Sheet

Benchmark:
Greater than 1.5

Solvency Benchmark

Debt to Asset Ratio
Measures long-term ability to repay all financial obligations

Debt to Asset Ratio = Total Farm Liabilities divided by Total Farm Assets

Source of Information:
Balance Sheet

Benchmark:
Less than 0.30 or Less than 30 percent

Profitability Benchmark

Rate of Return on Assets:
Measures...

<http://RightRisk.org> > RM Profiles

VOLUME 3, ISSUE 4

APRIL 2015

RIGHTRISK™

RIGHTRISK NEWS

Noninsured Crop Disaster Assistance Program

Farmers may use insurance as a strategy to help manage the risks associated with growing crops. The Noninsured Crop Disaster Assistance Program (NAP), administered by USDA's Farm Service Agency (FSA), provides producers of noninsurable crops with at least some basic or catastrophic coverage when low yields, loss of inventory, or prevented planting occurs due to natural disasters. The catastrophic coverage level is 50 percent of the approved yield for all applicable acres with losses below that covered at 55 percent of the approved market price.



Eligible producers are those landowners, tenants, or sharecroppers who share in the risk of producing an eligible crop and have annual gross revenue not exceeding \$2,000,000.

Eligible crops include those for which the catastrophic risk protection level of crop insurance is not available and must be crops grown for food, crops planted and grown for livestock consumption; crops grown for fiber (except for trees); crops grown under a controlled environment, specialty crops; value loss crops (such as aquaculture, Christmas trees, ginseng, ornamental nursery and turfgrass sod); sea oats and sea grass; and seed crops where the propagation stock is produced for sale as seed stock for other eligible NAP production.

When purchasing NAP, producers pay a service fee which is the lesser of \$250 per crop or \$750 per producer per administrative county, not to exceed a total of \$1,875 per producer with farming interests in multiple counties. The 2014 Farm Bill authorized the FSA to offer producers an opportunity to purchase higher levels of coverage on all eligible crops except those crops and grasses intended for grazing. NAP "buy-up coverage" allows a producer to select higher levels of yield protection (50, 55, 60, or 65 percent) at 100 percent of the established price.

Limited resource producers, beginning farmers, and socially disadvantaged farmers may request a waiver of service fees and reduction of "buy-up" premiums.

Buy-Up Example

Assume a farmer grows 100 acres of forage sorghum with an approved yield of 2 tons per acre on land he owns. Forage sorghum is eligible for NAP coverage in the county he resides and he chooses 60 percent yield/100 percent price "buy-up" coverage. The established price is \$137.33 per ton.

The farmer would pay a \$250 administrative fee plus the buy-up premium. The premium is calculated by multiplying the yield times coverage level times the price times the number of acres times ownership percentage times 5.25 percent. Thus, the premium for buy-up coverage would be \$250 + \$865 (2T x 60 percent x \$137.33 x 100A x 100 percent x 5.25 percent) or \$1,115.

If due to an qualifying event, the farmer harvests one ton per acre, the NAP payment would be calculated by first multiplying the approved yield by the selected yield coverage, the number of acres, and the producer share to arrive at the disaster coverage level. Any actual production

would be subtracted from the disaster coverage level to establish the net production for payment. The net production for payment then be multiplied by the price coverage level to get the calculated NAP payment.

Example: 2 tons x 60 percent x 100 acres x 100 percent = 120 tons yield coverage. Production to count: 1 ton x 100 acres = 100 tons actual production for payment: 120 - 100 tons = 20 tons. The NAP payment would be 20 tons x \$137.33 = \$2,747.

If the producer purchased NAP insurance without buy-up coverage, he would have paid only the \$250 administrative fee. Since the coverage level is 50 percent and the farmer's 1 ton per acre actual yield would equal this disaster coverage level, there would be no payment.

NAP insurance is just one tool available to farmers for managing their production and price risks when crop insurance products are not available. Producers interested in possibly using NAP or NAP Buy-Up should contact their local FSA office or visit www.fsa.usda.gov

Deadline Looming!

Producers have the annual deadline by which most people must file their tax returns and pay any taxes owed for the past tax year. It is also the deadline for making the first installment payment for any estimated taxes due for the current tax year.

Estimated tax payments should be the lesser of: (1) 90 percent of the tax expected for the current year or (2) 100 percent of the tax owed for the prior year with a tax liability of \$1,000 or more should file quarterly estimated payments to avoid possible penalties and interest charges. For calendar year taxpayers, estimated payments are due quarterly on April 15th, June 15th, September 15th, and January 15th.

Producers may choose to make a single estimated tax payment by the 15th of the month following the close of their tax year or by the end of their income tax liability by the first day of the third month following the close of their tax year - January 15th and February 15th, respectively, for calendar year taxpayers.

Publication 225 (Farmer's Tax Guide) explains how the federal tax laws apply to farming. This publication and other information on tax returns and making estimated payments is available at www.irs.gov. The Rural Tax Education web site (www.ruraltax.org) is a valuable resource for articles on tax topics, sample tax returns, and other general tax information.

Producers should consult with their tax advisor about the proper filing of their taxes and whether they may be required to make quarterly payments of their taxes for the current year.



How Much Risk is Right for You?

- DATES TO REMEMBER**
- Base Acre/Yield Updates - April 7, 2015
 - ARC/PLC Election - April 7, 2015
 - ARC/PLC Enrollment - Mid-April 2015 through Summer 2015
 - Production history reporting deadline - April 29, 2015
 - Spring crop acreage reporting deadline - July 15, 2015
- For more information see: <http://www.ruraltax.org>



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RightRisk News is brought to you by the RightRisk Team

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Thank you!

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