

TelFarm Newsletter

Volume 23, Issue 2

Fall 2023

Important Dates for Year-End

Submission for review:

If you are on Pc Mars or QuickBooks and would like your accounting records reviewed prior to receiving tentative reports, please submit a

backup file to the Tel-Farm Center by

Wednesday, November 1, 2023. Files received

after this date will not be reviewed, they will only be printed, as is, for tentative tax documents. If you submit them for re-

view and have resulting updates to your books, please re-send an updated copy of your books by Friday, November 10, 2023.

Early November:

Accounting and depreciation transactions are due in the TelFarm office on or before Friday, November 10, 2023 (must be in office by then, not postmarked by) in order for you to receive:

- Cash Flow Report

- Tentative Tax Planning Package
- Depreciation Schedule

We will only print accounting reports for clients that have submitted books/records to us completed through at least September. All clients will still receive tentative depreciation schedules and tax planning handouts as long as your account is paid for 2023.



November 27:

Items mailed to clients:

- Tentative Tax Planning Packages and Depreciation Schedules
- 2024 Enrollment Contracts

December:

- Tax planning meetings by Farm Business Management Educators. Submit your changes in accounting and depreciation made during tax planning meet-

ings to TelFarm upon completion.

- Enrollments due by Monday, December 11, for 2024 year if you need supplies to start off January 2024. (A signed enrollment contract is needed to get supplies)

January:

- Employers prepare W2s and give to employees and SSA by January 31, 2024 as well as Form 943 to the IRS.
- Furnish 1099s to recipients and 1099-MISC for employee compensation to the IRS by January 31, 2024.

February:

Tax Package Deadline - final 2023 records are due at the TelFarm office on or before Monday, February 5, 2024 in order for you to have some time to file and pay taxes by March 1, 2024 to the IRS.

Revenue insurance can help support use of grain marketing tools

By: Jon LaPorte, MSUE Farm Business Management Educator

Marketing tools and crop insurance are both useful to help farmers manage risk. Marketing tools help to secure favorable prices for farm production. Crop insurance helps cover production losses from a number of natural causes, including drought, excessive moisture, insects and disease. Revenue-based coverage helps protect against natural causes and also market volatility. The inclusion of market protection is often why it

gets confused as a marketing tool.

There are several marketing tools that help secure a cash price for your grain production. The cash price is based on commodity futures prices and basis cost on a date of sale. Some contracts allow you to lock in basis, other contracts lock in futures prices. Marketing tools will lock in both and set a cash price while revenue insurance does not affect any aspect of securing a cash price for

your production.

In truth, revenue insurance offers support that helps ensure that prices set by marketing tools are actually received. This support is provided through a pre-set election called a "harvest price option." Revenue policies use an initial base price to calculate a revenue coverage guarantee. The base price for corn and soybeans

Article continued on next page.

Revenue Insurance, continued

is set in February. The harvest price option is used when prices at harvest are higher than an initial base price. With a higher harvest price, both your revenue coverage guarantee and your harvested production value are increased. This insurance feature offers protection when you use marketing tools.

Consider an example of a 600-acre soybean farm with an actual production history (APH) of 40 bushels per acre. The farm manager decides to forward contract 18,000 bushels. The contract bushels equal 75% of their insurance coverage level (40 bushels x 75% x 600 acres). However, August turns dry and harvested yields end up being poor. Because of poor production, soybean prices rise significantly past the initial base price. The result is too few bushels to deliver on their forward contracts.

The revenue protection policy provides coverage in this scenario. The final revenue guarantee is recalculated using a harvest price. The insurance payment then helps offset buying higher priced grain to fill the contracts. Table 1 illustrates this scenario further.

It's important to remember that crop insurance isn't purchased to make money but to help manage potential risk. In times of higher prices, marketing tools can help make money by locking in favorable prices. Revenue policies offset risk concerns of volatile market prices

and poor production up to your coverage level. Managing production risk helps provide confidence your marketing strategies can be successful.

For more information on crop insurance options, visit: <https://www.canr.msu.edu/resources/bulletin-e-3415-introduction-to-crop-insurance-for-field-crops>.

For recommendations on marketing strategies, visit: <https://www.canr.msu.edu/news/grain-marketing-strategies-to-consider-for-2023>.

Table 1. Revenue protection with low yields and high prices

Marketed 18,000 bushels at \$13.00 per bushel	\$234,000
Produce 13,200 bushels and have to buy 4,800 bushels at \$14.40 per bushel	-\$69,120
Crop Insurance payment based on futures prices at \$14.73 per bushel	+\$70,704
Gross Return (after purchasing 4,800 bushels)	\$235,584

Note: Gross Return would be lower with deduction of an insurance premium, which is not shown here.

TelFarm Users Group Resumes

Are you interested in improving your Pc Mars bookkeeping skills? Do you have questions on how to do certain transactions? Would you like an opportunity to talk to other TelFarm cooperators about ag issues? *Consider joining the TelFarm Users Group.*

We will be meeting via Zoom web conferencing, once a month from November to April. All meetings are on Thursdays from 1-2 pm. This year we are going to have some planned topics and also leave time for user submitted topics. We plan to record the sessions, so if you can't join us live, but are interested, please get on the participant list.

Please contact the TelFarm office or

MSU Extension Educator Florencia Colella (colellaf@msu.edu or cell 231-224-6439) to get registered to receive the Zoom meeting link for these sessions. If you don't have fast enough internet to join the video conference, you can call into the meeting on your phone to hear the meeting and engage that way.

User Group Dates/Planned Topics:

November 9th—

- Special transactions (CCC Loans, Crop Insurance, Pat Divs)
- Grain settlement deposits including deductions and setting up as recurring transactions

December 14th—

- Vendor management for next

year

- Vendor reports for 1099's
- Payroll year-end reports

January 25th—

- Bookkeeping implications in FINAN analysis
- Reconciling bank statements, including prior year transactions
- Reconciling revolving credit accounts

February 22nd—

- Basic budgeting in PcMars

March 21st—

- Inventory/Net Worth in PcMars

April 18th—

- TBD

All topics are subject to change if needed. *Please join us!*

2022 Farm Financial Benchmarking Results

Highlights from the Michigan Farm Business Summary

The Michigan Business Analysis Summary is the summarized financial report from TelFarm co-operators participating in the year end FinAn business analysis. You can view the complete report at the TelFarm website: <http://www.canr.msu.edu/telfarm/business-analysis-summaries/>

This is a gauge of the financial performance of the average Michigan farm completing the Finpack FinAn business analysis through MSU Extension. The Farm Business Summary is divided into three Whole Farm Analyses subsets: 1) All Participating Farms - Whole Farm Report, 2) Crop Farms Only - Whole Farm Report, and 3) Dairy Farms Only - Whole Farm Report. There is

also “cost of production” enterprise reports for corn, corn silage, soybeans, alfalfa haylage, winter wheat, and dairy enterprises. Farms are included as “crop” or “dairy” if over 70% of their gross farm income comes from their crop sales or milk sales/dairy cattle sales, respectively.

	2018	2019	2020	2021	2022
All Farms					
Net Farm Income	\$49,912	\$125,800	\$192,016	\$268,246	\$439,960
% Return on Farm Assets (FMV)	0.3	2.4	4.3	6.6	8.9
Net Worth Change (FMV)	\$(33,400)	\$120,909	\$195,109	\$392,701	\$434,754
Debt Replacement Margin	\$(76,817)	\$7,108	\$92,522	\$183,655	\$292,407
Crop Farms					
Net Farm Income	\$144,619	\$109,096	\$180,455	\$308,225	\$287,762
% Return on Farm Assets (FMV)	2.8	2.0	4.4	8.7	6.8
Net Worth Change (FMV)	\$89,049	\$85,966	\$192,335	\$514,525	\$312,475
Debt Replacement Margin	\$10,987	\$(57,994)	\$90,370	\$239,350	\$159,064
Dairy Farms					
Net Farm Income	\$(38,078)	\$234,603	\$315,943	\$271,739	\$1,158,690
% Return on Farm Assets (FMV)	-1.8	2.9	4.8	4.7	14.7
Net Worth Change (FMV)	\$(228,101)	\$222,378	\$290,274	\$278,801	\$1,069,124
Debt Replacement Margin	\$(192,271)	\$105,962	\$189,010	\$142,821	\$993,504

Interpretations

The average 2022 farm financial results were higher than in 2021. This was unexpected, as the 2021 farm financial results were higher than any of the five years prior to 2021. Average 2022 net farm income was an impressive \$434,754. The next highest annual net farm income was 2021 at \$309,137. Dairy farms showed a huge increase in the milk price,

from an acceptable price of \$17.85 per cwt in 2021, to \$25.06 per cwt in 2022. The strong crop yields and sale prices also played a large role in the great results (see average corn yields and prices on the next page). The government PPP and ERC programs did not significantly contribute to the higher results, as they essentially wrapped up in 2021.

This all contributes to an average net farm income that is the highest in many years. Expected responses should result in paying down debts and building net worth. This allows farms to be able to react to future challenges and opportunities as well as making any needed machinery and building purchases.

2022 Benchmarking Results, cont.

Reported Average Corn Yields and Sale Prices (All Farms)					
	2018	2019	2020	2021	2022
Avg. Corn Yield bu/ac	154	159	165	185	176
Avg. Corn Sale \$/bu	\$3.72	\$4.18	\$3.81	\$4.27	\$6.22

Crop Farms

The average crop farm had a 2022 net farm income of \$287,762. This was down from \$309,139 in 2021, which was the highest average net farm income over the last five years. These farms still showed a healthy increase in net worth of \$312,475, in market value. The strong grain prices in 2022 and good grain yields appear to have compensated quite well with the higher input costs. The past few years have been good for Michigan grain farms, if not impacted too much with the variable weather.

Dairy Farms

The average dairy farm had an outstanding 2022 net farm income of \$1,158,690, easily the highest in many years. The milk sales price in 2022 averaged \$25.06 per cwt of milk. While the 2019-2021 prices were at near breakeven milk sale price levels, the 2022 milk price was about \$8.00 per cwt above that. The dairy farms in prior analyses had an average milk sales per cwt of \$17.85 in 2021, \$16.62 in 2020, \$17.41 in 2019, and \$14.81 in 2018. Dairy farms also saw a benefit from the higher-than-average crop sale prices on excess crop yields. The recent years have been very good for the health of Michigan dairy farms.

Enterprise Analysis

Enterprise Analysis calculates the cost of production and then is adjusted by government payments received and unpaid operator labor. Crop enterprises include corn, corn silage, alfalfa haylage, soybeans, and winter wheat. Crop enterprise reports are sorted by owned and cash rent, as well as by net return. For some crops, there were not enough farms for the enterprise report. Dairy is the only livestock enterprise with enough farms to produce an enterprise report. The cost of milk production is calculated on both a per cow basis and on a per hundred-weight of milk basis.

Wishing you a safe harvest season this fall!



MSU is officially closed on these days:

- Thanksgiving* — November 23 & 24
- Year End Break* — December 25-January 2
- MLK Day*— January 15

Current PcMars Software Version is 3.0.6.1

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