Agritourism Risk Management in this Brand-New Era

By

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WHAT IS AGRITOURISM

The term “Agritourism” is often used interchangeably with “Agri-tourism,” “Agrotourism,” “farm tourism,” “Agricultural tourism,” or “Agritainment.” Its roots in the United States can be traced to the late 19th century. Agritourism could be considered the combination of Agriculture and Tourism to educate the public and bring an added source of income to farmers. Tourists can learn how their food is grown, and farmers can keep their land. The National Law Center defines Agritourism as a commercial enterprise linking agricultural production and processing with tourism to attract visitors to a farm, ranch, or other agricultural business to entertain and educate the visitors and generate income for the farm, ranch, or business owner. People may view Agritourism as a venture that attracts many tourists; this may scare off small businesses from considering Agritourism to boost their revenue. However, Agritourism can be considered like eco-tourism, which is small-scale, has minimal impact, and focuses more on education. It is described as a working farm or an agribusiness venue where people go for enjoyment, education, farm activities, and to buy a product or service.

Agritourism can be added to any farm business as a supplementary activity to support other farm yields. If the production from one can be increased without affecting the production level of the other. For instance, the producer could invite people to their farm to learn about animals in livestock production.

It can also be a complementary enterprise to support other enterprises on the farm. For example, an apple orchard could sell wholesale to retailers and directly to consumers as a U-pick operation.

As a primary enterprise, Agritourism could be the dominant activity on the farm. A typical example is a winery that invites visitors for tasting and overnight stays on the farm, which then becomes the leading enterprise of the farm. However, Agritourism has the potential to become whatever the farm would want it to be on the farm.

One must think creatively and plan effectively for any new enterprise to be successful. The primary purpose of Agritourism is to introduce and increase farm experience and education for visitors and increase farm income for producers.

According to the National Agricultural Law Center, the definition of Agritourism should include the following four factors:

❖ combines the essential elements of the tourism and agriculture industries
❖ attracts members of the public to visit agricultural operations
❖ is designed to increase farm income
❖ provides recreation, entertainment, and educational experiences to visitors.
STATES DEFINITION OF AGRITOURISM.

Every state has its unique definition of Agritourism. The National Agricultural Law Center has summarized the agritourism indemnity laws of most states. The definitions are listed below.

The state of Delaware defines "Agritourism activity" as any activity that allows members of the public to view or enjoy rural activities, including farming; ranching; wineries; historical, cultural, or harvest-your-own activities; guided or self-guided tours; bed and breakfast accommodations; or temporary outdoor recreation activities. "Agritourism activity" includes, but is not limited to, planting, cultivation, irrigation, or harvesting of crops; acceptable practices of animal husbandry; barn parties or farm festivals; livestock activities, not to include rodeos; hunting; fishing; swimming; boating, canoeing or kayaking; temporary camping; picnicking; hiking; diving; water skiing or tubing; paintball; and nonmotorized freestyle, mountain or off-road bicycling. An activity is an agritourism activity whether the participant paid to take part in the activity. Agritourism activities may be allowed statewide on farms of 10 or more acres subject to the provisions of this Title adopted for each county.


The state of New Hampshire defines Agritourism as “attracting visitors to a farm to attend events and activities that are accessory uses to the primary farm operation, including, but not limited to, eating a meal, making overnight stays, enjoyment of the farm environment, education about farm operations, or active involvement in the activity of the farm.” RSA 21:34-a,II(b)(5).


The State of Maine defines Agritourism activity as; “Agritourism activity” means any agricultural activity carried out on a farm or ranch that members of the general public are allowed to view or participate in, including farming, ranching, historical and cultural activities, harvest-your-own activities and attractions related to farming or ranching. An activity is an agritourism activity whether or not the participant pays to view or participate in the activity”.


For the state of Ohio, “Agritourism” means an agriculturally related educational, entertainment, historical, cultural, or recreational activity, including you-pick operations or farm markets, conducted on a farm that allows or invites members of the general public to observe, participate in, or enjoy that activity”.


The state of Maryland has not enacted any statute for Agritourism, but the Ag-Tourism Highway Signing Program described an Agritourism facility as "an agricultural destination located on a working farm that (a) is open to customers and tourists for at least six (6) months of the year for on-site sale of local agricultural products and (b) has established an educational tour that
can be provided by a knowledgeable guide upon request, public events, such as festivals, fairs or workshops or both educational tours and events”. In addition, under MALPF’s allowable uses policy, Vineyards, orchards, farm winery, retail sales facility, tasting room, ag tourism, picnicking, tours, promotional and charitable events. Generally, to receive approval, the easement owner must have ownership interest and any accessory sales areas may not exceed 600 square feet. A tasting area/room must be part of the production and/or retail structure and must be consistent in scale to on-site production. All wine/grape products sampled (tasted) must be processed on-site. No more than two major events allowed per year. The use must be acceptable to county zoning.

The New York State Agriculture and Markets defines “Agricultural tourism” as “activities, including the production of maple sap and pure maple products made therefrom, farm and winery tours, equine activities both outdoors and indoors but excluding equine therapy, u-pick Christmas trees, hiking, hunting and other forms of outdoor recreation offered to farm visitors, conducted by a farmer on-farm for the enjoyment and/or education of the public, which primarily promote the sale, marketing, production, harvesting or use of the products of the farm and enhance the public's understanding and awareness of farming and farm life”.

Also, “Equine therapy” shall include equine activities for children or adults with physical or mental disabilities, post-traumatic stress disorder, or other conditions for which equine therapy is sought for therapeutic purposes or treatment”. (NYS Safety in Agritourism Act)

The New York State Guidance for the Safety in Agricultural Tourism Act clarifies the responsibilities of Agri-tourism and equine business operators and their visitors by establishing enhanced protection for farm owners from liabilities associated with inviting the public onto their farms for agricultural tourism events and activities.

The guidance provides an overview of the Safety in Agricultural Tourism Act and best practices for farmers in evaluating the possible risks of agricultural tourism activity. It also helps operators to create practical and informative signs. In addition, the document describes the public’s responsibilities when visiting these Agri-tourism locations.

As part of the guidance, the department outlines the important requirements of business operators, which include:

❖ Posting warning signs in conspicuous locations on the potential risks of the on-farm activities and the responsibilities of visitors
❖ Distributing written information to visitors directing them to the posted signage
❖ Posting directional signage
❖ Taking reasonable care to prevent foreseeable risks
❖ Providing training to employees.
❖ Posting a conspicuous notice to visitors of the right to a refund
The Department recommends that farm operators consult with insurance and legal professionals to identify potential risks to visitors specific to their farms by performing a “risk assessment.” In addition, these business owners should periodically review their operations to determine whether any changes are needed to be made to the signage, training, or procedures to ensure better the safety of visitors and protection under the statute. The new law provides increased protection from lawsuits only to farms that provide the required disclosure and follow the additional requirements of the new law.

A “one size fits all” approach does not ensure all the protection afforded by the Safety in Agricultural Tourism Act. For example, generic signage may not show the risks posed by the activities conducted on the farm. Also, forms used in other States under similar laws may not satisfy the requirements of the New York law.

To obtain the maximum protection afforded by this law, farm owners should work with their insurance and legal professionals and perform a “risk assessment” to identify potential risks to visitors specific to the farm.

Moreover, farm operators need to periodically review their operations to determine whether any changes need to be made to the signage, training, or procedures to ensure better both the safety of visitors to the farm and protection under the statute.

Further, obtaining the complete protection offered by this statute will require a thorough assessment of the risks of the agricultural tourism activities conducted on the farm concerning the action itself and the farm operation. This assessment will help find foreseeable risks that will need to be addressed by the farm and shown to farm visitors participating in agricultural tourism activities. Agritourism operators are to seek the assistance of professionals with expertise in managing farm risk, conforming to the farm’s practices to the Safety in Agricultural Tourism Act requirements, periodically reviewing those practices, and making changes, if necessary. A periodic review will help to ensure that the farm operation continues to receive the complete protection offered by this statute.

NYS Safety in Agritourism Act

CLASSIFICATION OF AGRITOURISM VISITOR

The National Agricultural Law Center gives three categories of farm visitors: invitees, licensees, and trespassers.

- Invitees are the most important since they are on the farm by invitation, and the property owner will generate income from them visiting the farm. Farm employees staffing agritourism events are also considered a visitor. The farm owner must inform invitees of potential hazards on the farm and the risks in the farm activity that these visitors may be performing. In addition, the farm property must be kept safe for them.
Agritourism farms would have to develop a risk management plan to mitigate inherent risks because of this heightened standard of care.

❖ A licensee has permission to be on the farm but does not bring any economic benefit to the agritourism owner. An example is a hunter or a fisherman who does not compensate the landowner for using the land. The landowners owe it to the licensee to have them know of any inherent risks on the farm. The priority should be not to endanger the licensee in any way.

❖ Trespassers are people on the land without the landowner’s permission. As a general rule, landowners owe trespassers no duty of care except to avoid intentionally injuring them. However, depending on the situation and town laws, children trespassing on the farm may be owed a higher duty of care.

Target Audiences of Agritourism Enterprises

Agritourism businesses attract different kinds of visitors because of the different types of activities that they may offer and the interests, tastes, and persona of visitors. Consumers of agritourism are always looking for activities to satisfy their interests. Others may search for entertainment, educational programs, relaxation, getaway, and event locations. Each target audience may be looking for something different in an agritourism enterprise. The targeted audiences of agritourism may include:

- School teachers
- School groups
- Youth civic and church groups
- Adult civic and church groups
- Garden clubs
- Business leaders
- Birthday-party planners
- Brides and grooms-to-be
- Married couples
- Local families with children
- Families on vacation
- Business travelers
- Fair and festival goers
- Teenagers
- History buffs
- Wine connoisseurs
- Hunters
- Wildlife watchers
- Landscape and wildlife photographers
- Outdoor enthusiasts (hikers, bikers, boaters, rafters)
- Equine enthusiasts
Types of Agritourism Enterprises

Among the different types of Agritourism activities are:
- Pumpkin Picking
- Hayrides
- Corn Mazes
- Animal Petting
- Petting Zoo
- Winery Tours
- U-Picks
- Christmas Tree Cutting
- Hiking
- Bed and Breakfast
- Maple Trails
- Cider Trails

**Educational**
Winery/Cider/Brewery tours, School tours, Garden/Nursery tours, Agricultural technical tours, History agricultural exhibits

**Outdoor Recreation**
Horseback riding, Fee fishing, Camping and picnicking, Fee hunting, Cross-country skiing, Wagon/sleigh ride.

**Accommodation**
Bed and Breakfast, Farm stay, youth exchange, youth camping, Guest ranch

**Entertainment**
Concerts/special events, festivals/fairs, petting zoo, hunting,

**Direct Agricultural Farms**
On-Farm sales, Road stand farms, U-picks, farmers market, Christmas tree cutting


Possible advantages
- Diversify and bolster income sources
• Share challenges and satisfactions of your lifestyle with others
• Develop interpersonal and communication skills
• Agritourism activities may take place on a small scale
• Recreation guests represent a high-value, low-volume market
• Relatively inexpensive

disadvantages

• May require additional money and time
• Planning can be tedious and frustrating
• May impact some family members negatively
• Additional risks involved in allowing visitors on your property
• Additional guest facilities may require additional time and money
• Adding products and services is a long-term process

Importance of Agritourism

• Allows for diversification
• Enhances rural development
• Education of the public about farming
• Increase income
• Increase employment
• Increase in taxes for the local economy
• Involving the whole family in the business
• Opportunity to increase family income

Visitors' motivation for agritourism Engagement

• Support local farmers/business
• Spend time with family/friends Purchase or consume a fresh food product
• Have fun
• Take an adventure
• Participate in outdoor activities
• Participate in an affordable activity
• Enjoy a rural area
• Experience a rural life
• Learn something new
• Rest or relaxation
• Participate in an activity close to home
• Learn how products are grown or made
CHARACTERISTICS OF AGRITOURISM

Agritourism is different from conventional tourism in the following ways.

**Location:** The location of the Agritourism enterprise is essential. Most people like to leave the pressures of the city to relax. An agritourism farm on the city's outskirts will give them the satisfaction they deserve.

**Type of Activity:** The type of activity also matters a great deal. Agritourism activities usually involve a farm engagement. It can be an engagement with farm animals like goat and llama yoga, milking cows, and animal petting. Something that they may never experience in the city. Others may also be interested in tasting exotic fruits and vegetables. Such people will engage in activities like apple picking, cherry picking, strawberry picking, and many more.

**Educational:** The type of educational programs offered by agritourism venues are unique. People visit for food demonstrations, to learn how to farm, or engage themselves in an educational farm activity they may never have the chance to do.

**Owner Type:** The type of owner of an agritourism venue also matters. Some people would like to visit a minority-owned farm. Others will prefer older farmers to young or beginning farmers.

**Accommodation Type:** Agritourism offers visitors the option of a farm stay where they can feel free, relax and enjoy nature. It is a nature-based service offering

**State and County laws on Agritourism**

Most states have laws affecting and protecting farmlands. Before a farm decides to diversify and add Agritourism as part of its activities, it must check with its local municipalities to ensure that such ordinances do not affect them. In that case, standard requirements and restrictions like noise making, road setup, signage size and dimension zoning restrictions, building codes, compliance with the Americans with Disabilities Act, taxation, and business permits may affect its operation. According to the Cornell Small Farm Program, The New York State Article 25-AA of the Agriculture and Markets Law authorizes the creation of local agricultural districts pursuant to landowner initiative,
preliminary county review, state certification, and county adoption. Most counties have placed agricultural land in state-certified agricultural districts. While they are county-created and state-certified, towns have no authority over agricultural districts. Therefore, agricultural districts should be distinct from agricultural zoning laws that may exist in some towns. Farms located in Certified Agricultural Districts are exempted from some of these codes and zoning laws (Cornell Small Farms) Agricultural District Law Provisions. The NYS Dept. of Agriculture & Markets website has information on local and agricultural district laws and how they relate to farm development plans. Legislation | NY State Senate (nysenate.gov)

New York's Agricultural District law was enacted in 1971 to help keep farmland in agricultural production. A county legislative body must approve and forward the petition to the Commissioner of agriculture for formal review and designation. The purpose of an agricultural district thing is to encourage the continued use of farmland for agricultural production. The program is based on a combination of landowner incentives and protections, all of which are designed to forestall the conversion of farmland to nonagricultural uses. Agricultural operations within the district are the priority land use and afforded benefits and protections to promote the continuation of farming and the preservation of agricultural land. In practice, districts may include land, which is actively farmed, idle, forested, as well as residential and commercial.

In Dutchess County, NY, there are four Ag Districts, but towns like the city of Poughkeepsie and beacon and some villages are not included in the agricultural district. Landowners must apply
for an agricultural assessment, and the farmland must satisfy certain gross sales and acreage eligibility requirements. Agricultural assessment is limited to land use for agricultural production. Ag value assessment is different.

Similarly, the Department has concluded that on-farm special events, such as harvest festivals, help market the farm operation’s crops, livestock, and livestock products. These activities and on-farm recreational activities are evaluated on a case-by-case basis to determine whether they are protected as part of the farm operation. The Department interprets AML §301(11) to include such activities as part of a farm operation under certain conditions. In cases where a farm is charging admission, facility rental and/or vendor fees for such activities or for the use of its facilities, the annual sales of the farm’s crops, livestock, and livestock products as a result of such activities must exceed the admission, facility rental and/or vendor fees charged, less the farm’s actual cost to offer the activity/hold the event, so that the primary purpose of the activities is to sell the farm’s agricultural commodities and not to gain admission fees or rental income.

For an event to qualify as Agritourism, they must sell products produced on the farm that they usually sell as part of the event, and this is where the confusion starts. Agritourism can be a part of that, but it is not necessarily the end. One cannot just throw a bunch of pumpkins on a front lawn and say it is a pick-your-own-and label it Agritourism. There must be sales of the products at an Agritourism event. So, an orchard that has pick-your-own as its primary operation, including a farm store selling veggies, eggs, fruits, and other products already produced and sold, would be considered Agritourism because they satisfy the requirement of having their products for sale as part of their agritourism event.

**NYS Guidelines for Review of Local Laws**

**Agritourism Risk**

Business risk is anything that affects the success of managing an enterprise. Most businesses have associated risks and uncertainties, and agritourism businesses are not exempted from inherent risks. Although agritourism generates new sources of income for farmers, it may also
bring about potential problems and legal complications. These enterprises could be held legally responsible for the safety of their customers and employees if measures are not implemented to manage these risks.

Risk management includes identifying, assessing, and controlling risks that may arise with any business venture. Agritourism risk management involves identifying the associated production, financial, marketing, legal, and human risks. Therefore, an agritourism risk management plan is necessary to reduce these risks. The Agricultural Marketing Resource Center recommends that businesses avoid certain activities, use liability waivers, purchase insurance, practice good management techniques, train employees, and pay attention to the business’s legal structure to ensure its well-being. The level of liability of an Agritourism enterprise to its visitors depends on their classification on the farm.

Although Agritourism is a viable enterprise, it may not be suitable for everyone. You must assess whether Agritourism is an appropriate venture for you. To determine your suitability, you will have to do a personal assessment to evaluate your interest in Agritourism.

According to a study done by Virginia Tech Extension, one must carefully analyze their potential as a host and the resources available for investment in agritourism. Proper planning and analysis will substantially increase the chances of success. Evaluating yourself and your family to make a firm decision about agritourism is very essential. Some of the questions to be considered are:

- Does your family like meeting all types of people?
- Does your family like to entertain strangers?
- Does your family mind giving up some of their privacy at home?
- Can your family always be cheerful and helpful around guests?
- Can you always keep your farm and guest facilities neat and clean?
- Are you successful at managing and organizing your home and farm expenses?

If you answered positively to all these questions, you could successfully manage an Agritourism business; if you answered no, you might want to weigh your decision since you may not be the right candidate for the business.

You will also have to do a cost-benefit analysis before going into Agritourism. The rule of thumb is for the benefit to outweigh the cost otherwise, you must be willing to make changes to suit your interest.

Consider the goals and objectives you may already have established for your farm. If Agritourism falls within your current goals and objectives, you can consider it a viable business for your farm. If Agritourism does not fall directly within your current goals and objectives, you should reconsider your objectives or consider a different alternative enterprise. Make an inventory of all the products, services, and resources your farm offers, including your financial, physical, human, and natural resources.

You may want to consider the following questions:
• What are your primary products or enterprise?
• What do you produce the most on your farm?
• If Agritourism may be an attraction for visitors?
• How to enhance Agritourism and make it attractive to visitors.
• Other products that may complement your enterprise.
• Think of other assets and resources that may attract visitors.

Would other farmers in the area be interested in displaying their products on your farm or partnering with you to provide Agritourism at your farm?

After deciding to venture into Agritourism, you should seek technical advice from others who are experts in the field. You can also contact your local Extension office, local tourism department, or small business administration for more information.

Risk Identification

Agritourism can be a risk-management strategy for farms because it diversifies their income streams, creates new marketing channels, and evens their seasonal cash flow. Agritourism is not without risk itself, however. The risks associated with agritourism, or any business operation, fall into eight major categories:

• Physical safety of the site
• Safety of products for sale, including food safety, compliance with direct-sales regulations
• Compliance with environmental and land-use regulations
• Compliance with other applicable laws and general business regulations, including employee safety and welfare, as well as animal safety and welfare
• Market changes
• Business interruption due to natural disasters or weather
• Legal and management structure
• Financial solvency

Risk Evaluation

Understanding and weighing your attitude towards risk and how you respond to it is essential. The risk attitude below will help you determine your risk tolerance. Consider the following risk attitudes and decide where to put yourself on the scale. Are you one type or somewhere between two classes? If you have farm partners, ask them to rate themselves as well. Do you share similar views, or are they very different?

<table>
<thead>
<tr>
<th>RISK ATTITUDE SCALE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Avoider</td>
</tr>
<tr>
<td>An extremely cautious risk taker who is unprepared for the worst and dislikes taking any chances. Operation tends to be stable but may lose out on opportunities involving going out on a limb.</td>
</tr>
</tbody>
</table>
Risk Calculator  | Believes in taking chances to get ahead. Gathers information and analyzes the odds before deciding or taking action. Tries to be realistic, recognize the risks, and reduce them to acceptable levels. Over-analyzes sometimes.
---|---
Risk Adventurer | Feel risks are challenging and exciting and may often look for the chance to take risks. They enjoy the excitement of risk-taking and occasionally may need to be reminded to keep the stakes to a reasonable level.
Risk Daredevil  | A risk daredevil takes unnecessary chances. Plunges right in/stays put with eyes closed to risk. Daredevils usually fail when they ignore the facts or refuse to accept any precautions. However, they might get lucky sometimes.


• Evaluate your personality traits compared to the traits of typical entrepreneurs
• Identify and analyze your goals
• Evaluate the characteristics of your land and property
• Evaluate time considerations and labor needs
• Assess preliminary market information
• Brainstorm and develop ideas for agritourism activities
• Identify financial needs and resources

**Personal Evaluation Exercise**

For each of the following 25 statements, circle the letter corresponding to the response that describes you best. Circle **A** if you agree with the statement, **SA** if you somewhat agree with the statement, **SD** if you somewhat disagree with the statement and **D** if you disagree with the statement.

<table>
<thead>
<tr>
<th>Statement</th>
<th>Agree</th>
<th>Somewhat Agree</th>
<th>Somewhat Disagree</th>
<th>Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. I am a self-starter.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
<tr>
<td>2. I relate well with others.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
<tr>
<td>3. I enjoy being around and responsible for a large number of people, including children.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
<tr>
<td>4. I look forward to meeting people and opening my farm up to the public</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
<tr>
<td>5. I am an effective leader.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
<tr>
<td>6. I am responsible and enjoy being responsible.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
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<tr>
<td>7. I have effective organizational skills and abilities.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
<tr>
<td>8. I have a strong work ethic.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
<tr>
<td>9. I am comfortable making important decisions.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
<tr>
<td>10. I am honest even if the truth is not what people want to hear.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
<tr>
<td>11. If I make up my mind to do something, I do not let anything stop me.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
<tr>
<td>12. I am in good health, have plenty of energy and rarely get sick.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
<tr>
<td>13. I am patient.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
<tr>
<td>14. My family is 100 percent committed to starting and operating an agritourism venture.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
<tr>
<td>15. I am courteous and understanding.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
<tr>
<td>16. I have a strong desire to succeed.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
<tr>
<td>17. I have experience in managing and operating a business.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
<tr>
<td>18. I am an effective communicator.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
<tr>
<td>19. I enjoy learning new things.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
<tr>
<td>20. I am competitive in nature.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
<tr>
<td>21. I am effective at setting and meeting deadlines to accomplish tasks.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
<tr>
<td>22. I adapt well to change.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
<tr>
<td>23. I am willing to risk losing an investment.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
<tr>
<td>24. I will be able to survive financially if a new enterprise does not generate a profit for a few years.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
<tr>
<td>25. I am prepared to invest substantial time in planning and operating a new enterprise.</td>
<td>A</td>
<td>SA</td>
<td>SD</td>
<td>D</td>
</tr>
</tbody>
</table>

Once you have circled answers to all of these statements, follow the directions below to score your responses.

1. Count the number of times you circled each response (A, SA, SD, D) and write the number in the table below under **Number of Responses**.
2. Multiply the **Number of Responses** times the given **Points per Response** and write the product in the table under **Points**.
3. Add the points for each of the four categories of responses and write the sum in the table next to **Total Score**.
4. Compare your total score to the ranges below.

**90-100** Your personality and skills are like individuals who have succeeded as entrepreneurs.

**75-89** You have some characteristics like individuals who have succeeded as entrepreneurs. You should consider whether others involved in the operation are strong in areas challenging to you.

**0-74** You do not have characteristics like individuals who have succeeded as entrepreneurs, and you should reconsider your entrepreneurial project.

After evaluating your personal characteristics, how do you feel about your overall potential to operate and manage an agritourism venture?

<table>
<thead>
<tr>
<th></th>
<th>Number of Responses</th>
<th>Points perResponse</th>
<th>Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agree (A)</td>
<td></td>
<td>x 4 =</td>
<td></td>
</tr>
<tr>
<td>Somewhat Agree (SA)</td>
<td></td>
<td>x 3 =</td>
<td></td>
</tr>
<tr>
<td>Somewhat Disagree (SD)</td>
<td></td>
<td>x 2 =</td>
<td></td>
</tr>
<tr>
<td>Disagree (D)</td>
<td></td>
<td>x 1 =</td>
<td></td>
</tr>
</tbody>
</table>

**Total Score**

Circle the corresponding number below on a scale of 1 (very pessimistic) to 10 (very optimistic).

1  2  3  4  5  6  7  8  9  10

**Very Pessimistic**  **Neutral**  **Very Optimistic**

*Adopted from Agritourism in Focus A Guide to Tennessee Farmer-University of Tennessee Extension Publication 1754*
Production Risk

Regulations about creating a safe environment for public structures

Most visitors that patronize Agritourism centers or farms need to learn about farming or may not have visited a farm before. Therefore, measures must be implemented to guide them from injuring themselves. Communication with visitors before and during their visit to a farm is vital. Events requiring pre-booking or reservation give patrons the advantage of communicating safety measures and hazards to customers ahead of time. Patrons must ensure that any visitors that come to their property are well informed of the safety hazards inherent in the activity they will be involved in on their farm. Visitors should sign in upon arrival at the premises by agreeing to adhere to any safety measures before engaging in any activity on the farm. By doing this, farmers are protected from financial losses that may arise from potential injuries and illnesses.

Agritourism businesses owe it to their visitors to provide a safe environment. There must be Standard Operating Systems (SOPs) in place for structures. All farm buildings and structures must be safety compliant whenever a building is modified or altered, or a new facility is constructed. All farm structures should be covered by The Americans with Disabilities Act (ADA) law/requirements, and care must be taken to implement them. All physical barriers that will create an impediment to safety must be removed. Farm structures should be inspected periodically to ensure that all hazards have been removed for safety. Anyone who owns, operates, leases, or leases a business that serves the public is covered by the ADA and has obligations for existing facilities and compliance when a facility is altered, or a new facility is constructed.

❖ All physical features that limit access to visitors must be fixed.
❖ Parking spaces should be widened enough to accommodate wheelchairs.
❖ Designated parking spaces should be reserved for individuals with wheelchairs.
❖ All ground areas, holes, and depressions where water may pool have to be filled or drained and treated with larvicide if it cannot be drained to decrease insect reproduction or contamination.
❖ All paths and surfaces must be inspected regularly and kept free from debris and should also be kept smooth and leveled.
❖ All signs should be in good condition, be legible, and have language appropriate for visitors.
❖ Trails, paths, and walkways should be marked to direct visitors and wide enough to accommodate wheelchairs and scooters.
❖ Stairs and steps must be minimized, or ramps and handrails should be installed to accommodate wheelchairs.
❖ All guest entrances, exits, and buildings must be inspected for tripping hazards, debris, and clutter with signs marked for direction.
❖ All buildings, paths, and walkways must be lighted if in use after dark.
❖ All operating tools must be stored in a locked area.
❖ All building entrances/exits, and other walking surfaces should be smooth, even, and free of clutter and debris.
❖ Signs should be posted at the entrances to indicate guest areas and the type of attraction.
❖ Chemicals such as fertilizers, pesticides, fuels, and pharmaceuticals are kept in a locked storage area that is cool and dry with proper ventilation.
❖ All hand and power tools must be stored in a locked area.
❖ Storage areas that are off-limits to visitors should have a posted sign.
❖ Check local and state ordinances/regulations about liability.
❖ Special considerations are made for visitors with disabilities.
❖ Guests should be warned of any hazards for people with disabilities, such as steps and stairs.
❖ Signage, parking stalls, and smooth and wide walkways should be in place to accommodate disabled guests.
❖ Operation should comply with the Americans with Disabilities Act (ADA).
❖ Workers should be trained to take a few minutes when guests arrive to explain the hazards that can be found in the area.
❖ If a verbal explanation is not feasible, signs should be used to warn guests of hazards.
❖ Buildings should have clearly marked exit signs and be in compliance with the fire code regulations.
❖ Any buildings where children and guests will be present should have working smoke detectors.
❖ Visitors should be instructed on fire hazards on the farm and what to do in the event of a fire.
❖ Supervising adults should be aware of which children they are responsible for and can ensure that all children are accounted for in the event of an emergency.
❖ Excessive dust, cobwebs, and other potentially combustible materials must be removed from all buildings.
❖ Fuel should not be stored inside buildings.
❖ Vehicles should not be refueled indoors.
❖ Flammable chemicals and materials should be appropriately stored away from excessive heat and areas where guests may be present.
❖ Hay and straw to be placed in a barn or other structures should be properly dried.

Emergency Response Poster

Should include:

- Contact & Emergency numbers.
- Locations of first aid kits and fire extinguishers.
- A designated person who is in charge in case of emergency.
- Assigned roles and responsibilities of owners and workers in case of emergency.
- Farm location (including the area of the farm where the emergency is located).
Emergency Plans

❖ A sheet or poster with emergency information should be posted where everyone can see it and available for employees to pick up and take with them into the fields, to remote locations, and where needed.
❖ First aid kits should be regularly inspected, and supplies replaced as needed.
❖ Inspections should be documented regularly (at least monthly).
❖ Expiration dates of all items in the first aid kit should be checked, and expired products replaced.
❖ Items in the first aid kits should be replaced immediately after use.
❖ First aid kits should be placed in several areas on the farm.
❖ First Aid Kit Signs should be placed on drawers or cabinets to indicate that the first aid kits are stored in them.
❖ All workers should know where the first aid kits are located.
❖ Workers should be trained in basic first aid and CPR.
❖ Incident reports should be filled out and placed in an Incident/Emergency Logbook.
❖ Operations reports must be filled for any incident that involves injury to an employee or visitor, damage to equipment or the workplace, and any serious expression of dissatisfaction from a visitor or employee.
❖ Workers should encourage guests to report any illness or injury immediately and administer first aid as soon as possible.
❖ Maps should be available with routes to the nearest clinic/hospital sites.
❖ Workers should charge cell phones, two-way radios, or other communication methods throughout the farm site daily.
❖ There should be methods to contact emergency personnel and other workers from any location on the operation, including distant sites.
❖ If cell phones are used: Cell phone signal needs to be sufficient in all areas where phones will be used.
❖ Batteries need to be kept charged and checked daily.
❖ Employees need to have all other employees’ cell phone numbers stored in their phones.
❖ All employees should know the correct channel for the radios and frequently check them to ensure they are on the right channel.
❖ Volume on radios should be set appropriately so employees can hear them, especially in noisy situations.

Emergency Response Plan

includes:

- Safety goals for the operation
- Important emergency contact numbers
- Fire and inclement weather safety plans
- First aid, fire extinguisher, and other equipment training records
- Locations of first aid kits, fire extinguishers & other equipment
- Assigned roles and responsibilities for owners and workers in case of emergency
❖ Appropriate fire extinguishers should be easy to identify and retrieve.
❖ Clothing and other items should not be draped over the fire extinguisher, hiding it from view.
❖ Fire extinguishers are clearly marked and regularly maintained (Fire Extinguisher Plan).
❖ If fire extinguishers are within children's reach, steps should be taken to prevent access by children, such as a case or cabinet.
❖ If fire extinguishers are not visible, a Fire Extinguisher Sign should be posted to indicate their presence.
❖ There should be fire extinguishers located in several areas throughout the operation.
❖ Workers should know how to use a fire extinguisher and where they are located.
❖ Smoke detectors should be in all buildings and be in working order.
❖ A Fire Evacuation Plan is posted for everyone to see how to escape quickly.
❖ A Fire Safety Plan (including the evacuation plan) should be in place for all buildings and for outdoor venues that may be susceptible to wildfires or grass fires.
❖ All workers are familiar with the Fire Safety Plan and review it regularly.

First Aid Kit Monitoring Log sheet
Farm Fire Prevention Guide
Chemical Handling

STORAGE BUILDING SAFETY TIPS

❖ Put handrails on all stairways and make sure all permanent ladders are in good condition.
❖ Clear areas near the stairs and high-traffic areas of objects that may cause someone to trip. Avoid creating piles of objects, like tires, that children can climb.
❖ Regularly inspect and maintain floorboards. Make sure to check boards on upper stories for weak or rotten spots.
❖ Clean buildup of trash, dust, or cobwebs. They can interfere with the electrical system and cause problems.
❖ Maintain proper lighting throughout the building. Light stairwells, storage, work areas, and other areas are regularly used. When light bulbs are close to a work area, they can be bumped. Glass enclosures help, but a substantial guard would reduce the risk of breakage and fire.
❖ Store chemicals correctly. Lock up pesticides, solvents other toxic chemicals and immediately dispose of empty containers.
❖ Use Lockout Tagout on electrical supply boxes and other systems around the farm.
❖ Carbon monoxide buildup from combustion engines is colorless and odorless so keep the building properly ventilated when using the equipment.
❖ Safe and clean buildings will help prevent accidents and provide a better working environment for employees.
❖ Storage areas such as sheds, barns, and bins must be locked when visitors are present on the property.
Chemicals, fuels, and pharmaceuticals must be kept in storage areas that are cool, dry, and have proper ventilation.


**SOP: Cleaning and Sanitizing Surfaces, Tools, and Equipment**

**Farm Safety (Fences)**

- Areas that contain hazards to visitors must be fenced or have some type of effective barrier between the hazard and visitors.
- The operation should be checked from a child’s eye level, to assess the need for barriers and fencing.
- Fences and barriers should be in good condition, inspected regularly, and repaired as needed.
- Adult supervision is required, especially if children can climb under, over, or crawl through the fence.
- Wire weave fencing or mesh can be added to existing fences to prevent children from crawling under or through the fences.
- Fencing barrier should be at least 4 feet high and designed so children cannot climb through it, or crawl under it, and prevent them from entering non-permitted areas.
- Barbed wire, smooth wire, and electrical wire fencing should be avoided as a barrier between children and hazards. Their purpose is to contain animals and poses a hazard to children.
- All electric fences must be turned off when visitors are present, and make sure they are easily identifiable (if possible, remove all electric fences).
- Double fencing should be in place to prevent children from reaching animals that tend to bite.
- Gates and latches should be able to withstand weather and abuse from children.
- Make sure latches on gates are not accessible to young children and check gates regularly to ensure they close and latch properly.
- Mark areas that are not permitted to guests clearly.
- The operation is inspected prior to guest arrival to determine which areas are not for guest use.
- In addition to signs, barriers such as fencing should be used in areas where guests have easy access.
- Gated fences that are used as a barrier between guests and a hazard, should be kept locked when guests are present.

**Farm Fire Preparedness Plan**

**Hygiene for visitors**

- Hand washing facilities for visitors should be in guest areas, not employee work areas.
- Signs with handwashing instructions should be posted and hand-washing facilities should be clearly marked.
Hand washing facilities should be within the reach of all visitors, including children and visitors in wheelchairs.

Sufficient water pressure should be available to adequately rinse soap and dirt from hands.

Hands-free water taps will minimize disease transmission.

Hand washing and restroom facilities should be regularly inspected for cleanliness and scheduled cleaning must be done and documented.

Soap and clean water for handwashing should be provided, along with paper towels.

Hands-free water taps will minimize disease transmission.

Soap and clean water for handwashing should be provided, along with paper towels.

Cloth towels should be avoided, as they may harbor germs and dirt. Only paper towels should be used.

If soap and water are not available, hand sanitizers or hand cleansing wipes should be provided.

Water in buckets or tubs should never be used to wash hands. Water should always be “flowing”, so multiple people aren’t using the same water.

Visitors should be instructed to wash their hands before eating or drinking, after petting or touching animals, and before departure.

Hand washing policies and procedures should be known and followed by all employees, as well as communicated to guests.

Restroom facilities need to be adequate to accommodate the expected number of guests.

Operations with inadequate facilities should provide portable restrooms to accommodate the increased number of visitors.

One must consider business hours and whether the business serves food and drink when considering the adequacy of restrooms for visitors.

Whether the facilities are standard restrooms or portable bathrooms, regular inspections for cleanliness and scheduled cleaning should be done and documented.

www.safeagritourism.com/Resources.

Worker Health, Hygiene, and Training
Worker-Health-Hygiene-and-Training-Visitor-Logsheet

#Resources
MARKETING RISK

Good marketing is the backbone of every successful business. Agritourism marketing is any activity carried out by the farm to attract and maintain customers and attract potential customers to generate income and increase profit for the farm. Simply put, it is how the farm builds and maintains relationships with its customers. Agritourism marketing presents the farm's product or services to existing and prospective buyers or users. It is placing suitable goods and services, both tangible and intangible, in the right place, at the right price, and at the right time for the right customer. Building a brand that will resonate with targeted audiences is essential. Once a customer becomes satisfied with the experience they receive from the farm, they will spread the word to potential customers who may become future customers. The Agritourism brand justifies why the business matters, what the purpose of the business is, and what value the company adds to people's lives. Growing an Agritourism business is difficult; whether selling a product, services, or information, getting the word out to potential customers must be done tactfully. Therefore, Agritourism businesses need a good marketing strategy and plan to fuel their mission and build a successful brand. A marketing strategy and a marketing plan are sometimes interchangeable, but they are not the same; the marketing plan depends on the marketing strategy for success (the goals laid out in the marketing strategy determine the plan of action the marketing plan will take).

MARKETING STRATEGY

An Agritourism marketing strategy is a farm's guide to planning. It describes how the farm will fulfill the needs and wants of its customers. It embodies the goals of the farm and a plan of action to achieve them. In other words, it reflects the farm’s goals and how its marketing efforts will assist in accomplishing them. The farm marketing strategy must identify and select the target markets and the marketing mix. The marketing strategy should have measurable goals. Thus, it defines the WHAT the agritourism wants to achieve, which is usually long-term.

MARKETING PLAN

An Agritourism marketing plan is a detailed practical document that sets clear, realistic, and measurable activities, including deadlines, budgets, and staff allocations. It also identifies specific marketing activities and budgets that meet the marketing objectives, which brings a marketing strategy to life.

An agritourism marketing Plan

❖ Outlines the marketing strategy for the business.
❖ Practical implementation of the marketing strategy.
❖ Dependent on the marketing strategy.
❖ Defines the how of marketing.
Usually a short-term approach. (Quarterly, semi-annually, annually)

Marketing plans are cyclical and ongoing. The Agritourism business should include developing and implementing a marketing plan in their plans. The farm might be undertaking one or more of these four processes at one point:

- Developing the farm marketing plan
- Implementing strategies in the plan
- Evaluating whether the strategies are contributing to the overall marketing goals
- Refining the marketing plan

**IMPORTANCE OF MARKETING STRATEGY AND MARKETING PLAN**

To better market an Agritourism enterprise to prospective customers, a clear vision and mission statements must serve as a blueprint to aid the process. The owner must clearly state his family's values/beliefs and interests to guide the process.

An Agritourism enterprise vision statement focuses on what the farm aspires to become in the future. It provides the purpose for why the Agritourism enterprise exists. It is more directional focused, and hopeful (An example can be the vision of the farm is to give every person a farm experience). It is the WHY of what the farm does. (Why you are farming or engaged in an Agritourism enterprise). The farm vision statement promotes internal and external growth, a guide for management and stakeholders. It communicates the business's goals, purpose, and values and WHERE it wants to be in the future.

It seeks to answer questions like:

- What are the farm's hopes and dreams?
- What are the problems/issues the farm is solving?
- Who and what is the farm inspiring to change?

The **mission statement** is the core of the Agritourism business. It outlines the objectives of the farm and what it will take to reach them. It is what the farm does now to achieve its purpose for the business. It focuses on the moment (today) and what the farm does and drives it to success. It defines the purpose and primary objectives for the farm's customer needs and team values. A brief description of why the farm exists. The Farm mission statement seeks to solve issues like (answer the following questions):

- What do we do? (How the farm satisfies the needs of its prospects/ the experience that will be enjoyed by the target audiences/what makes the farm different from others)
- Whom do we serve? (The farm's target audiences)
- How do we serve them? (What products or services should the farm offer)
The farm mission statement should be a dynamic document; however, it has to relate to the vision of the farm, its core values, and customer needs. The changes made in the vision or mission statement should relate to the foundational values of the business.

The Marketing Strategy Process

A well-developed marketing strategy will help realize the farm’s goals and build a strong brand for the business. It helps the farm target its products and services to those most likely to engage in them. The strategic marketing process involves

- Establishing the mission of the Agritourism business
- Developing the goals of the Agritourism business (SMART FRAMEWORK)
- Assessing the Farm Resources and Environment (SWOT ANALYSIS)
- Identify and select strategies
- Implement and define the selected strategies

Establishing the Mission of the Agritourism Business

This is usually a brief description of why you are in business doing what you are doing. Refer to the mission statement above. To formulate the mission statement, you need to know your values. Below are common values that influence the goals of the farm.

<table>
<thead>
<tr>
<th>Common Values Among Farmers</th>
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</thead>
<tbody>
<tr>
<td>The Farm is a good place to raise a family</td>
</tr>
<tr>
<td>The farm should be run as a business</td>
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<tr>
<td>It is acceptable for farmers to borrow money</td>
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<tr>
<td>A farmer should have at least two weeks of vacation</td>
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<tr>
<td>It is better to be self-employed than to work for someone else</td>
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<tr>
<td>It is acceptable for a farmer to also work off the farmer</td>
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<tr>
<td>It is more enjoyable to work alone than with other people</td>
</tr>
<tr>
<td>Farmers should strive to conserve and keep water and air resources clean</td>
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<tr>
<td>A family farm should be passed on to the next generation</td>
</tr>
<tr>
<td>All family members should be involved in the operation</td>
</tr>
</tbody>
</table>

Developing the Goals of the Business
The farm can use the goals set by the farm as a reference point for decision-making and measuring the progress. The values of the owner and family shape the goals of the business.

The farm’s goals must be written down for everyone involved in the decision-making process to see and agree on it and serve as a reference point for review.

The farm must use the SMART framework to guide its goals. The goals must be written down for management to assess and review periodically. For example, the goal could be; To own 100 acres of land in Dutchess County in the next seven years.

**SPECIFIC:** The farm must state what it wants to achieve with clearly defined objectives, set real numbers with deadlines, and the who, what, where, why, and when of it all. What do they want to do? "To own 100 acres of land in Dutchess County" makes it easier for management to assess the achievement of the goal.

**MEASURABLE:** The goal must be measurable: Owning 100 acres of land is measurable, making it easier to measure its achievement.

**ATTAINABLE:** Work towards a challenging but possible goal: Owning 100 acres of land is possible to achieve.

**REALISTIC:** Be honest with yourself- you know your capability and set a realistic goal: Owning land as a farmer is a possibility.

**TIME-BOUND:** Give the set goal a deadline. "To own 100 acres of land within the next seven years" keeps management focused on its achievement and preparing for the deadline.
Assessing the Farm Resources and Environment

Every farm has its own characteristics that are unique to them. These resources include human, financial, and physical in quantity and quality. The process of scanning through these resources for a thorough analysis to help identify strategies and goals is what is called the SWOT Analysis. The SWOT analysis involves both internal and external scanning of the business to identify possible.

Analyze the Agritourism Business by Conducting a SWOT Analysis

**S. Strengths**: advantages relative to competitors; brand equity, experience, breeding livestock, personal skills, equipment, buildings, niche products alliances, innovative products or services, convenient location for your customers.

**W. Weaknesses**: internal factors that put the farm at a disadvantage in the marketplace; competition, weak distribution channels, insufficient resources and skills, and inadequate online presence.

**T. Threats**: unfavorable factors that threaten your business; changes in the market or economy, severe weather, competition, cash flow problems, bad public reviews, new competitors, better products, or lower prices by competitors.

**O. Opportunities**: favorable situations that put you at an advantage; use of advanced technology, the higher economic growth rate in your region a new vendor account, brand in your market or niche.

A SWOT Analysis will help identify both the internal and external resources of the business strengths, weaknesses, opportunities, and threats.
Identify and select strategies

This is an opportunity for the management of the farm to review the results of their SWOT and brainstorm to identify possible strategies to help the farm. They may decide to continue with working strategies and formulate new strategies that align with their goals and vision. This is the opportunity for the farm to use its available resource to its advantage and make changes to any challenges to build a great brand. Solutions could be lowering or increasing production, purchasing more efficient equipment, changing marketing channels, advertising more, and improving management skills. Improve marketing plan. Management should have alternatives to choose from. Management should take the opportunity to segment their market to identify potential customers. The diagram below shows how the business can segment the market by customer characteristics to identify a target market.

Implement and Refine the Selected Strategies

Management should implement the strategies that were identified:

1. Create short-term objectives to meet the set long-term goals for the Agritourism business.
2. The business can market to the targeted audiences.
3. The farm can use the marketing mix below to deliver its objectives.
**Product:** What the agritourism business is selling. It could be goods or services that will satisfy customer needs.

**Place:** Where will the farm be selling its products? Where are the distribution channels for customers to find information about the farm? (Ex: Farm, online, or storefront locations)

**Price:** How does farm price compare to their competitors? Does the price of the goods reflect the quality of the brand? Is the pricing appealing to your market? Is the pricing structure profitable to the business?

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The Marketing Mix (7P’s)

**Product:** What are you selling

**Place:** Where are you going to sell your product

**Price:** How does your price compare to your competitors

**Promotion:** What are your advertising methods

**People:** What is the perception of the people in your organization

**Process:** Are you easy to do business with

**Physical Environment:** How are the aesthetics of your website or store

---

**Promotion:** What marketing communication and advertising methods are used to provide information about your product or service? Do your messages influence buyers, convey the benefits of your product, and influence perceptions of your brand?

**People:** What is the perception of the people in your organization? Are your employees properly trained? Do you provide superior customer service? Do you have set standards or codes of conduct for your employees?

**Process:** Are you easy with doing business? How do your procedures, mechanisms, and flow of activities affect the speed and quality of your customer's needs?
**Physical Environment**: How are the aesthetics of your website or store? How do your employees dress? What statement does your packaging say about your brand

Do you know how to evaluate your marketing strategies?

Evaluating and analyzing is an essential step in the effectiveness of your marketing strategies. Evaluations and analysis can be done by checking the sales response, getting customer feedback, continuously monitoring progress, and calculating the cost of campaigns against the campaigns' profits. Regular evaluations ensure that you stay on track, reach your goals, and maximize your ROI.

The farm can also decide to write a business plan so that if they decide to go for a loan, they will have something to show.

**Business Plan**

[Click on the link to take you to the Section on Business Plan]
Customer Service Policies.

There should be a policy on how to welcome visitors to the farm. Employee training should be focused on this area as well. Hospitality starts with the first person of contact on the farm, and attitude will determine customer perceptions of the farm. The first impression of customers matters a lot in customer service. When you receive your customers well, they become enthused to partake in assigned activities. This first contact on the farm is just like the hotel concierge, tasked with ensuring that all customers feel welcomed and that their questions are answered accurately per the hotel’s customer service policies. The agritourism enterprise should also endeavor to treat visitors as important guests, friendly welcome them to the farm, and show courtesy. They must be warmly welcomed and informed of their rights, responsibilities, and expectations on the farm. Have customers sign in before they engage in any farm activities. Proper signage should be placed at vantage areas on the farm, reminding customers of their responsibilities on the farm. No entry areas must be visibly marked. Employees should listen to and pay attention to customers and be always available for assistance, setting protocols in place for how to receive visitors at the farm. You must train workers in charge of hospitality management on how to answer questions from visitors and be very knowledgeable of the farm to describe it appropriately to visitors. For liability reasons, keep farm visitors from wandering, stranded, loitering, or being unattended on the farm. They must be cared for promptly. Address visitors by name if possible. Refrain from copying the policies of other farms since every operation is different. The policies must differ from operation to operation and must be relative to each farm. Most standard policies will include how to keep a clean and attractive facility. Promise what you can deliver to customers and provide adequate parking, considering accessibility to visitors with a disability.

Educate Visitors

Educating visitors about your farm is very important for the satisfaction and safety of visitors for liability reasons. Most states have indemnity laws protecting producers against liability that may arise from a suit from visitors. Visitors must be made aware of the inherent dangers associated with the farm activity they will be engaging in and the applicable visitor policies regarding the said farm activity. View your operation in the eyes of the visitor by inviting friends and family to your farm to assess the farm or engage them in the said activity, give you feedback, make suggestions, and explain the reason behind your practice. Make their visit more fun with safety in mind. Answer customer inquiries promptly and thoughtfully. Prepare your staff to answer questions appropriately. If you have a farm store, ensure that your products are adequately stocked and sell them at affordable prices.

Keeping Facilities Clean

Keep Clean Restrooms, adequate Parking, neat and adequate garbage receptacle, and an area for relaxation and resting. Keep a list of important and emergency phone numbers on hand for visitors to use. The emergency numbers may include numbers of the farm’s supervisor, police, and fire. Also, provide numbers and directions to the nearest hospital. Provide adequate parking for visitors, make sure that the parking lots are well demarcated if possible, and consider regulations affecting parking. Ensure the paths are clean; puddles and stagnant water
must be taken care of/addressed to prevent a fall. Demarcate off-limits areas legibly and clean pathways as much as possible to prevent a fall hazard.

Provide a list of phone numbers of the area restaurants, hotels, shopping centers, museums, and nearby areas of attractions. An aspect of good customer service is ensuring that your visitors/customers are happy with your service. Making customers happy can be done through the evaluation of your visitors and customers, and business. Remember, every business with vendors/suppliers should treat them the same way they would treat visitors or customers. Make sure that these segments are satisfied with your services because they spread their experiences about your business with others. These segments are a significant asset if you plan to evaluate the whole business. Customer perception about your farm/product/services is crucial for business survival. A good first impression will have a positive effect on the business. Conversely, a wrong first impression will impact your business negatively.

Agritourism Visitor Evaluation

Customer evaluations can be done through the:

❖ Ask for customer feedback. Customer feedback can be done electronically or through questionnaires. It must be short and brief to encourage more responses. You can ask them to share their email to communicate with them and send them a survey for feedback when they register or buy event tickets online.
❖ You can have customers scan a QR code that will take them to a survey. You can survey your visitors, vendors, and employees.
❖ Encourage employees to share customer service dissatisfaction, observations, suggestions, and complaints. Let them feel comfortable expressing their ideas and views.
❖ Have procedures in place to address customer complaints. Complaints should be handled promptly since too much delay could negatively affect your business. Some of the complaints may be minor that may require a minimal change here and there. So being prompt about it could eliminate the problem. For complaints that are more challenging to resolve, you can follow up with the customer to see what can be done for them to resolve the issue. You can even reward them by giving them free coupons for their next visit. Unresolved customer complaints may lead to many issues for the farm. In this era of social media, you do not want dissatisfied customers to spread their dissatisfaction on social media. It is essential to consider the factors that customers can use in rating your service.
❖ Management must show empathy by letting customers know how you feel their pain and understand what they are going through.
❖ Show responsiveness by following up with visitors promptly after they have made a complaint.
❖ Show assurance by following through with what was promised and discussed with the customer. Tell them that management will follow through to the end to resolve the issues to the best of their capabilities.
❖ The farm should endeavor to have SOPs for employees to follow through in delivering superior customer service. Give customers various means to report complaints. The
A farm should provide visitors with an email address, phone number, a suggestion box, and social media pages.

**Reward Customers.**
A feature of successful customer service is building customer loyalty to retain customers. Make it a habit of following up with visitors to check how satisfied they are with the services/experience received from your farm. Have them rate the services they received. If possible. Also, reward visitors by offering them coupons to use on their next visit. The farm can also build a fun club or a Facebook fan page for loyal customers. The fun page will be perfect for developing the farm's earned media; this will give satisfied and loyal customers the platform to post, mention and repost the business on social media and leave a positive review.

**Visitor Management System**

Create a visitor management system to enable the farm to track. The visitor management system involves

- Tracking when visitors/guests arrive and leave the farm
- Limiting where visitors are allowed to go on the farm
- Controlling visitor length of stay at the farm event
- Providing the visitor with an identification tag
- Protecting visitor data and pricing by staying compliant with laws and regulations on collected visitor data
- An online visitor pre-registration system is a more efficient way of tracking visitors.

The manager should be knowledgeable about the company's visitors' policy to avoid misunderstandings with a visitor. Therefore, the manager should prepare to answer any visitor inquiry promptly, whether onsite, online, or by phone. In addition, the manager must be knowledgeable about the contents of the visitor policy.

It creates a level of uniformity in terms of the rights and responsibilities of the employees.

This part of the policy comprises where and to whom the policy is applied. The policy can also state which part of the farm visitors can and cannot go and note who are the authorized persons to do so. If there is a violation, it is up to the company to decide how to handle it. They can either warn the violator or escort him out of the office premises.
FINANCIAL RISK

Risk Diversification Strategies

Agritourism enterprises, like other businesses, need good management to survive and prosper. They must stay abreast of new technologies in the field and decide or choose ones that will be profitable. Good financial management is critical for accessing capital, profitability, and the farm’s sustainability in the long run; thus, it calls for a detailed record of financial performance by collecting, keeping, and analyzing financial data. A business with poor recordkeeping is bound to fail. Records allow the manager to assess where it has been and if it is on a path to making a profit/breaking even and creating financial stability. It shows the results of management decisions over the past periods. It also impacts the future direction of a business by offering meaningful information to correct or revise past decisions and to improve future decision-making. The main factors of financial risks are:

❖ The cost and availability of capital
❖ The ability to meet cash flow needs and commitments of time
❖ The ability to absorb short-term financial shocks
❖ The ability to maintain and grow the equity in the business

THE PURPOSE OF FARM RECORDKEEPING

The purpose of recordkeeping is to:

❖ Measure profit and assess financial conditions (Income Statement and Balance Sheet)
❖ Provide data for business analysis (Determines how profitable the business is. How sound is the financial condition of the farm? Provides information on the results of past decisions, which helps make current and future decisions.
❖ Assist in obtaining a loan (increases to odds of loan approval and receiving the total amount requested)
❖ Measure the profitability of individual enterprises (it helps identify which enterprise is generating more income. Recordkeeping can help eliminate unprofitable enterprises and channel resources to the more profitable enterprise. It can also assist in knowing where to cut costs.
❖ Assist in analyzing new investments (past data on the current enterprise can assist in making an informed decision on similar investments.
❖ Records for preparing income tax returns; the proper record keeping may produce income tax benefits. It may identify additional deductions and exemptions by allowing better management of taxable income from year to year and reducing income taxes paid overtime. Good recordkeeping will protect a business in the event of an IRS audit.
❖ Planning and evaluating estates
❖ Establishing insurance needs
❖ Developing marketing plans
Reporting to partners and shareholders

The accounting system of any business must be able to incorporate the business's production, finance, and investment activities.

- Production/service activities are those that have to do with crops and livestock, services rendered, expenses, interest, and depreciation.

- Investment relates to the purchasing, depreciation, and selling of long-lived assets like land, buildings, machinery, orchards, vineyards, and agritourism enterprises. Records on these should include the purchase date, price, annual depreciation amount, book value, current market value, sale date, sale price, and gain and loss when sold.

- Financial activities involve borrowing money and paying interest and principal on all debts. For example, money borrowed to finance new investments, operating money borrowed to finance production activities for the year, and account payables.

- One must choose an accounting system that allows recording all the various types of transactions and assigning them appropriately to the business's activity and enterprise. In addition, it must show the interrelations among the activities.

Important Terms are necessary for recording and analyzing financial data.

**Accounts Payable**
An incurred expense that is yet to be paid. Payments owed to vendors and suppliers for services received and yet to be paid. It is usually for a short term, 30 to 90 days for the amount to be paid in full.

**Account Receivable**
Revenue for products sold or services rendered to customers, but payment has yet to be received; purchases owed by customers for goods bought on credit.
**Accrued Expense**
An expense accrued daily but is yet to be paid because it has a future payment date. The expense recorded before it has been paid is recorded in the current accounting period, as well as interest on loan and property tax.

**Asset**
Any item of value, tangible and financial. A property of value that could be used to pay off debt or a property that has economic value and can be converted to cash.

**Credit**
An entry that records a decrease in the value of an asset, an increase in liability, an increase in revenue, and a decrease in expenses. So, a credit increases net income on the company's income statement, while a debit reduces net income.

**Debit**
A debit is an entry for a payment made or owed by the business. It is usually on record on the left side of a ledger account. So, when a transaction occurs in a double-entry system, one account is debited while another is credited.

**Expense**
A cost or expenditure incurred or spent in the production or generation of revenue.

**Inventory**
The physical quantity and financial value of products in stock for sale and yet to be sold.

**Liability**
A debt or financial obligation that must be paid at some point in the future, at the end of an accounting period.

**Net Farm Income**
Revenue minus expenses. Same as profit.

**Owner Equity**
The percentage of the total value of a farm's assets that is owned by its owners; is the difference between assets and liabilities.

**Prepaid Expense**
Payments received in advance for future goods or services. It is a payment that occurs in an accounting period before the one in which it would be used.

**Profit**
Revenue minus expense; the amount of money left over after the costs of running the business is deducted.
**Revenue**
The value of products and services produced/ the money generated from normal business operations during an accounting period. Revenue could be cash or noncash.

**Options for choosing an Accounting System.**

Several decisions must be made about the type of system to use before entering transactions into an accounting system. The following options should be considered to determine which accounting system best suits your farm.

- What accounting period should you consider
- Are you considering an accrual or cash system?
- Are you considering a single or double-entry system?
- Are you choosing a basic or complete accounting system?

**Accounting Period**
The accounting Period is used to summarize revenue and expenses and estimate profit. It uses a calendar year (all transactions occurring between January 1 and December 31 of each year). Reporting in the calendar year can be done for shorter periods like quarterly; however, everything would have to be consolidated into an annual report. The other accounting period is the fiscal year (any 12 months that begins on any date other than January 1); Accounting can be done for both management and income tax purposes).

**Cash and Accrual Methods of Accounting**
The difference between the two is mainly the time when transactions are recorded. Cash accounting records transactions when cash flows into or out of the business when you pay or receive money. At the same time, Accrual accounting records expenses when they are incurred and revenue when earned; regardless of when money was exchanged, you receive a bill or prepare an invoice.

**Cash Method**

In the cash method, income is taxed in the year it is received as cash or constructively received; - when income is credited to an account or when income was available for use before the end of the accounting year. Income and expenses are only recognized when money changes hands. It does not consider invoices sent as income or bills as expenses until they have been settled. Expense is deducted in the year it is paid and not in the year it was incurred. Most farmers use the cash method for calculating taxable income because of its advantages.

**Advantages**

- Simple; it requires a minimum of records, and you need not maintain inventory records for tax purposes, and it shows how much money you have on hand.
Flexible: It gives flexibility for yearly tax planning because you can adjust your taxable income by timing sales expense payments. Taxes are paid on money received rather than on invoices issued, which can help cash flow.

Disadvantages
❖ It does not show Accuracy; it may show profitability even when bills have yet to be paid.
❖ It is not the best option to help make management decisions, as it only shows a day-to-day view of finances.
❖ It does not accurately reflect farm income for the year because changes in inventory are not included when determining taxable income.
❖ Declining inventory: more taxes will be paid during years with declining inventory values because there is no inventory decrease to offset the cash sale from inventory.

Accrual Method.

Income is taxed in the year it is earned. It includes any change in income from the beginning to the end of the taxable year; Accrual income involves changes from the beginning to the end of the taxable year in the value of merchandise in inventory, as well as any cash income received. Any increase in inventory for the tax year is included in taxable income. An account receivable such as work done for a neighbor is earned income that is taxable even though a cash payment has not been received. Income is recognized as an expense when an invoice is prepared, even if payment has not been made. Expenses are deducted in the tax year in which they are incurred, whether paid or not. Any account payable at the end of the tax year is deductible.

Advantages
❖ A more accurate picture of business performance and finances
❖ You can make financial decisions with far more confidence
❖ It can sometimes be easier to pitch for long-term finance
❖ A better measure of farm Income because it keeps income taxes paid up on a current basis.
❖ Reduces income fluctuations in taxable income due to the inclusion of inventory changes
❖ Less tax will be paid in the years of declining inventory value; the decrease in inventory offsets some of the cash receipts.

Disadvantages.
❖ You may have to pay tax on income before you get paid, and you can only back those taxes on your next return should the customer default on the invoice.
❖ Increase record requirement. Complete inventory records must be kept, making it more difficult for farmers to use.
❖ Increasing inventory can cause a cash flow problem because tax is paid on inventory before the actual sale occurs.
❖ It has less flexibility because it is more challenging to adjust taxable income at the end of the year through the timing of sales and expenses.
❖ The cash accounting method is more desirable for farmers and small businesses because of its simplicity and flexibility.
❖ Good recordkeeping is essential for properly recording of taxable income and for good tax management. There are computerized recordkeeping systems that can help in keeping tax records.

The Farm Financial Standards Council (FFSC) report suggests an accrual-based system for discussing and recommending financial analysis measures. The FFSC accepts the cash accounting during the year but recommends that adjustments be made at the year's end to convert the cash accounting profit to an accrual adjusted profit for analysis and management decision-making.

Any accounting system should be capable of generating some basic financial reports. For example, using compensated accrual system can generate many different reports. Below are some reports that can be generated from the accounting system.

Transaction Journal
It is a record of all financial transactions (checks and deposits, debt payee, payers) that are used to make entries into the general ledger and provide an audit trail.

General Ledger
Provides records of the different financial accounts and the balance of the accounts. For example, the balances in revenue and expense accounts are used to prepare the income statement. The balances in the assets, liability, and owner's equity accounts are used to prepare the balance sheet.

Depreciation Schedule
Annual depreciation on all depreciable assets must be computed and recorded as an expense before an income statement can be produced.

Inventory Report
It tracks the quantity and value of crops and livestock on hand by recording purchases, sales, births, and deaths. The report is useful for monitoring feed availability, and usage for developing a marketing program and for monitoring any inventory pledged as collateral for a loan.

Enterprise Report
It is used to determine which enterprises contribute the most profit to the business and which do not. They help decide which enterprises to keep and which ones to eliminate.
Employee Records
Information about employees, such as hours worked, gross pay, deduction, and other information, can be automatically recorded into the general ledger.

Income Tax Report
The computerized accounting system can compile data from the information entered into the system for easy transfer for tax purposes.

Statement of Cashflows
It summarizes all sources and uses of cash during the accounting period. Furthermore, it is helpful for analyzing any business activities for the period. It serves as a source of data for completing the cash flow budget for the next accounting period. It allows for a monthly comparison of actual cash flows with budgeted cash flows.

Statement of Owners Equity
Records provide the information needed to measure how well the business is doing in meeting its goals. In addition, it identifies and summarizes sources of changes in or changes affecting the Owner’s Equity and net worth.

Family Living Expense
Although this is not part of farm financial activities, it helps keep records of family living expenses for income tax purposes.

The farm can use the reports from its balance sheet, income statement, cash flow statement, and annual reports to determine:
- If the business is making a profit
- If it is spending more than it receives
- When costs are highest and lowest
- How much it costs to produce its product
- If there is money left for management to invest back into the business

Balance Sheet
It summarizes the financial condition of the business at a point in time. It estimates net worth or owner’s equity by valuing and organizing assets and liabilities.
The following make up the balance sheet

Assets can be sold to generate cash and can be used to produce other goods that can be sold for cash at some future time.
Assets that can be sold quickly without disrupting future production activities are called liquid assets.
Assets that cannot be easily sold without disrupting future income flow are called illiquid Assets; examples are fixed assets like land, machinery, and feeding livestock.
**Current assets** are the more liquid assets that will either be used up or sold within the next year as a part of normal business activities; examples are checks, shares, bonds, accounts, and notes receivable.

**Non-Current Assets**
They are fixed assets like machinery, equipment, breeding livestock, and building.

**Liabilities:** An obligation or debt owed by the business or an outside claim against the business assets.

**Current Liabilities:** Financial obligations that will become due and payable within one year from the date of the balance sheet, which requires the availability of cash in that amount within the year from the date of the balance sheet. Examples include

- Accounts payable for goods and services received but not yet paid,
- Payments of short-term loans and principal payments due within the next year.
- Accrued interest
- Accrued property taxes
- accrued expenses like wages
- tax withholdings that have not yet been paid,
- accrued income taxes, and income taxes payable.

**Non-Current Liabilities:** Obligations that do not have to be paid in full within the next year.

**Owner’s Equity:** The amount of money left for the owner of the business should the assets be sold, and all liabilities paid at the date of the balance sheet. Owner's current investment or equity in the business. Owner's equity changes only the owner puts additional personal capital or withdraws capital from the business or when the business shows profit or loss.

**Purpose of Balance Sheet**
- It is a systemic organization of everything owned and owed by the farm at a point in time. Anything owned by the farm is called an Asset, and any debt or financial obligation owed by the business is called a Liability.
- A balance sheet is, therefore, a listing of Assets and Liabilities that ends with an estimate of net worth or owner's equity (owner's investment in the business).
- A balance sheet can be prepared anytime or at the end of the accounting period.
- The balance sheet formula is the sum of total liabilities and owner’s equity equal to the company's total assets.

**Total Assets = Liabilities + Owner's Equity**

**Measuring the Financial Position of a Business.**
- The financial position of a farm is measured by Solvency and Liquidity. The data for analyzing these ratios are generated from the balance sheet.
STATEMENT OF OWNER'S EQUITY

A statement of owner's equity is a financial statement that contains the change in owner's equity reflecting additions and subtractions of equity due to business transactions over time. A gain in the business increases the owner's equity; subsequently, a loss or debt decreases the owner's equity. Net farm income for the year always affects the owner's equity. Any monies taken from the business for personal and other uses reduce equity.

The calculation is as follows:
Opening balance of owner's equity
+ Income earned during the period
– Losses incurred during the period
+ Owner contributions during the period
– Owner draws during the period
= Ending capital balance

INCOME STATEMENT

The income statement, an operating system or profit and loss statement, summarizes the business's revenue and expenses for a given period. It measures the difference between revenue and expenses and tells the financial story of business activities over a specified period. A positive difference shows a profit or positive net income, and a negative value shows a loss or negative income for the accounting period. It reports income over a particular period, usually a quarter or a year showing financial strengths and comparisons over time. The income statement targets the business's revenue, expenses, gains, and losses. However, it does not distinguish between cash and non-cash payments and disbursements (cash purchases and credit purchases) or between cash and non-cash receipts (cash sales in cash vs. credit sales).

The income statement measures the profit or loss of the business during the last accounting period and if it was large. The revenue and expense accounts are generated from the income statement for comparison.

The income statement should be reviewed regularly to gauge business performance, analyze decisions, and implement new decisions. Reports generated can also be used to compare performance with others in the field.

The income statement includes the following:

❖ Revenue: Money a business receives during an accounting period
❖ Expenses: Money spent by the business during the reporting period
- Costs of goods sold (COGS): The cost of inputs for production.
- Gross profit: Total revenue minus COGS
- Operating income: Gross profit minus operating expenses
- Income before taxes: Operating income minus non-operating expenses
- Net income: Income before taxes minus taxes
- Earnings per share (EPS): Net income over the total number of outstanding shares
- Depreciation: The extent to which assets (for example, aging equipment) have lost value over time
- EBITDA: Earnings before interest, depreciation, taxes, and amortization

**Income Statement Format**

Net Farm Income is calculated by using the following:
Net Income = (Revenue + Gains) - (Expenses + Losses)

The [Farm Financial Standards Council (FFSC)](http://www.ffscouncil.org) gives specific standards and structure for the income statement. The following income statement follows FFSC guidelines. In a basic structure, the income statement in its condensed form is as follows:

- Total revenue
- Total expenses
- Net farm income from operations
- Gain/loss on sale of capital assets
- Net farm income

View a Sample income statement from The University of Minnesota [Agplan](http://www.agplan.com)

**Cash Flow Statement**

The cash flow statement is a record of a business’s cash inflows and outflows over a certain period. It summarizes the cash activity of the farm, and it allows it to see its varying availability of cash for the period. It helps the business in determining when loan payments are due and if additional borrowing is needed for the year. The cash flow statement summarizes the cash activities into operating, investing, and financing activities. The cash flow statement can be summarized monthly, quarterly, and semi-annually.

**The formula for the statement of cash flows:**

\[
	ext{Cash at beginning of year (Jan. 1)} + \text{Cash Inflows} - \text{Cash Outflows} = \text{Cash at end of year (Dec. 31)}
\]

- Cash (Jan. 1 & Dec. 31) = checkbook balance, savings, etc.
• **Cash Inflows** = production sales, capital sales, borrowed funds, contributed capital, etc.
• **Cash Outflows** = operating expense, capital purchases, debt service, non-farm draws, etc.

**Cash from Operating Activities**
The cash from operating activities comprise cash inflows and outflows related to operating the farm business. These business activities include receipts from the sale of inventory products, operating expenses, interest paid on loans, monies spent on production inputs, family living expenses, social security and income tax payments, ag program payments, and payments for any custom work that was done throughout the year. The *net cash income from operating activities* is the cash earned from operating income minus all the costs relating to running the business.

**Cash from Investing Activities**
Cash from investing activities include cash received from the sale of assets and cash spent on the purchase of assets. Typical, cash earned and received on investment products. These may purchase and sale of equipment, real estate, and breeding livestock. The net cash from investing activities is the cash earned from investment activities minus the cash spent on investment products.

**Cash from Financing Activities**
The cash provided by financing activities comes from any cash received from operating loans or term debt financing. In addition, any nonfarm income used to pay for farm expenses is also included. Lastly, any gifts or inheritance is included, along with any investment income, sales of personal assets, and retirement account withdrawals.
The cash flow statement can be used to determine liquidity problems and reduce liquidity issues. For example, suppose the cash inflows are insufficient to cover the business expenses and debts. In that case, there is a liquidity issue, and the cash flow statement can assist in determining which expenses needs to be controlled to lower the liquidity issue.

View a sample cash flow statement from the University of Minnesota Agplan

**Farm Business Analysis**
The income statement and other statements like the balance sheet, cash flow statement, and annual reports are used in generating reports which give more insights into profitability, spending, efficiency, productivity, and operations.

A complete farm business analysis can help management answer many questions about profits, production, expenses, low sales, and losses. For this purpose, we will look at three analyses that can be performed to improve the situation. The farm business can be analyzed by measuring profitability, liquidity, efficiency, financial efficiency, and repayment and replacement ratios.
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| **Liquidity**<br>Measures the ability of the farm to pay off short-term debts when they become due. <br>❖ **Current Ratio**: measures the amount of current farm assets relative to current liabilities. The extent to which current assets, if sold, would cover current farm liabilities.  
\[
\text{Current Ratio} = \frac{\text{Current Asset Value}}{\text{Current Liability Value}}
\]
| If, **Current Ratio**: < (less than) 1.0  
It means current liabilities outweigh current assets, and the farm’s debts due within the year are greater than its assets. An indication of a higher risk of distress or default.  
If **Current Ratio**: = (equal) 1  
It means current liabilities are equal to current assets to cover expenses and leaves no room for margin.  
If **Current Ratio**: > (greater than) 1  
Working Capital  
Shows the difference between current assets and current liabilities. It is a dollar value and not a ratio. It represents the remaining amount after selling all current assets and paying all current liabilities. It is used to measure the short-term health of an organization.  
\[
\text{Working Capital} = \text{Current Assets} - \text{Current Liabilities}
\]  
*Higher working capital* means the business's current assets are greater than its current liabilities.  
*Negative working capital* means the business's current assets are insufficient to pay for all its current liabilities. |

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| **Solvency**<br>Measures the liability of a business relative to the amount of owner's equity invested in the business. An indication of the ability of the farm to pay off all financial obligations or liabilities if all assets were sold. If the Asset of the business is greater, then the business is said to be solvent. If the assets are not greater than the liabilities, the business is insolvent and a likely candidate for bankruptcy.  
**Debt/Asset Ratio**<br>The debt-to-asset ratio measures what part of the farm's total assets is owed to lenders. It also measures a business's total debt to its total assets.  
\[
\text{Debt to Asset Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}}
\]  
❖ The ratio should have a preferable value of < (less than) 1.0, and even smaller values are preferred.  
❖ If the debt/asset ratio = 1.0 is an indication that liabilities equal assets, and therefore equity is zero.  
❖ Ratios greater than 1.0 means the business is insolvent and indicates that it is significantly funded by debt and may have challenges satisfying its obligations. |
**Equity/Asset Ratio**
The equity-to-asset ratio measures what part of total assets is financed by the owner's equity capital.

\[
\text{Equity to Asset Ratio} = \frac{\text{Total Equity}}{\text{Total Assets}}
\]

- High values are preferable, but the ratio must be at most 1.0. A value of 1.0 is obtained when equity equals Assets, which means liabilities are zero.
- A negative ratio is insolvent because equity would be negative.

**Debt/Equity Ratio/Leverage Ratio**
This ratio compares the proportion of financing that lenders provide with that provided by the farmer. It reflects the extent to which farm liabilities are combined with farm equity capital.

\[
\text{Debt to Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Owner Equity}}
\]

- A ratio of 1.0 means lenders and owners are providing an equal portion of the financing. Smaller values are preferred.
- The ratio will be zero as liabilities approach zero. Very large values mean small equity is involved, increasing the chance of insolvency.
- A steadily rising ratio may make it difficult for a business to get financing in the future. The increasing dependency on debt could eventually lead to difficulties servicing the business's current loan obligations. Extremely high ratios may eventually result in loan default or bankruptcy.

**Profitability**

**Net Farm Income (NFI)**
NFI is the amount by which revenue exceeds expense, plus any gain or loss on the sale of capital assets. The owner's equity or net income is used to measure the farm's profitability and financial strength and the owner's share of assets in the business.

\[
\text{Net Income} = \text{Total Revenue} - \text{Total Expenses}
\]

- NFI is the amount by which revenue exceeds expense, plus any gain or loss on the sale of capital assets.

**Rate Of Return on Assets**
Return to assist (ROA) is sometimes called return on investment (ROI). It is a financial ratio that shows the profitability of a farm relative to its total assets. It can be used to determine how efficiently a farm uses its assets to generate a profit.

\[
\text{Return on Asset} = \frac{\text{Income}}{\text{Total Assets}}
\]

\[
\text{Rate of Return on Assets} = \frac{\text{Return to Assets}}{\text{Average Assets} \times 100}
\]

\[
\text{Rate of Return on Assets} = \frac{\text{Net Income from Operations}}{\text{Average Management \text{Farm Investment}}}
\]

\[
\text{Average Investment} = \frac{(\text{Beginning Total Assets} + \text{Ending Total Assets})}{2}
\]

- It is a percentage of the business's net income and its average assets. A higher ROA shows a higher efficiency and productivity of the business at managing its balance sheet to generate profit; conversely, a lower ratio indicates the need for improvement.
ROA informs the business of the return generated for each dollar of assets invested. So, if ROA is 10.2%, it means each dollar of assets generates about $0.10 of return.

The Rate on equity (ROE)
A return on the owner’s share of capital invested. It measures how fast the farm’s net worth is growing. ROE measures financial performance. It measures the profitability of the business and its efficiency in generating profits.

\[
\text{Rate of Return on Equity} = \frac{\text{return on equity}}{\text{average equity}} \times 100
\]

\[
\text{Average Investment} = \frac{(\text{Beginning Total Equity} + \text{Ending Total Equity})}{2}
\]

Return on Equity = Net farm income from operations – cost of labor and management

- The higher the ROE, the more efficient the business management is at generating income and growth from its equity in the business.
- The ROE can be greater or less than the ROA, depending on the ROAs relative to the average interest rate on borrowed capital.
- If ROA > I, then ROE > ROA
- If ROA exceeds the interest paid on borrowed money, the extra margin goes to equity capital, and therefore ROE increases. The debt is large relative to equity; ROE thus becomes greater than ROA.

Operating Profit Margin Ratio
Operating Profit Margin ratio (OPMR) is a measure of probability. The ratio computes operating profit as a percent of total revenue, and it shows how efficient a business is.

\[
\text{Operating profit} = \text{Net farm income from operations} + \text{interest expense} - \text{cost of labor and management}
\]

\[
\text{Operating profit Margin Ration} = \frac{\text{operating profit}}{\text{total revenue}} \times 100
\]

- A higher value shows that the business is making profit per dollar of revenue.
- OPMR can be attributed to whether expenses are high or low. Low profit margin can be caused by a single variable or multiple variables combined such as high expenses, low prices on the products produced, or simply inefficiencies in the production phase of the business.
- OPMR of 25% or higher means the farm is in good shape and strong. Anything less than 15% - 20% could be considered weak and vulnerable.

Efficiency

Operating Expense Ratio
The operating expense ratio is computed by dividing total operating expenses (excluding depreciation) by gross revenue. It reflects the relationship between all operating expenses to gross revenue.

\[
\text{Total operating expense} - \text{Depreciation expense} - \text{Amortization expense} \quad \text{Gross revenue}
\]

- Higher operating ratios are associated with farms with hired labor or larger proportions of their land and machinery rented.
**Interest Expense Ratio**
The interest expense ratio shows the relationship between interest expense to gross revenues.

\[
\frac{\text{Total farm interest expense}}{\text{Gross revenue}}
\]

- Ratios higher than the average may indicate too much dependence on borrowed money or a high-interest rate on existing debt.

**Asset Turnover Ratio**
The asset turnover ratio measures how farm assets are used efficiently to generate revenue. A higher ratio indicates that the farm is using its assets more efficiently.

\[
\frac{\text{Gross revenue}}{\text{Average total business assets}}
\]

- An asset turnover ratio of 0.20 or 20% means that the gross revenue for one year equals 20 percent of the total revenue invested in the business. If this continued, it would take five years for the farm to produce products with a value that equals total assets. The Asset Turnover will vary by the size of the farm; therefore, the ratio should be compared among farms of the same general type.

**Term Debt Coverage ratio**
The term debt coverage ratio indicates whether the farm produced enough income to cover all intermediate and long-term debt payments.

The Term Debt Coverage Ratio is calculated as follows:

\[
\text{Capital Debt Repayment Capacity} = \frac{\text{Net Income} + \text{Depreciation Expense} + \text{Non-Farm Income} - \text{Family Living Expenses & Income Taxes} + \text{Interest Expense on Term Loans}}{\text{Scheduled principal and interest payment on term loan and leases}}
\]

- A ratio over 1 is more desirable since it indicates that debt payments could be met and there would be monies left after payment.
- A ratio below 1 shows that the farm is not generating enough revenue to make debt payments. The debt could be covered by the sale of assets, the sale of inventory on hand, or by securing additional loans.
- If the ratio equals 1, the debt payments could be made, but there would be nothing left over.

**Repayment and Replacement Capacity**
The debt coverage ratio measures the capability of the farm to cover its current interest expenses and scheduled term debt and finance lease payment obligations before purchasing unfunded capital replacement assets.
Replacement Coverage Ratio
The replacement coverage ratio measures the ability of the farm to make payments for principal and interest on term loans and any purchased capital assets paid for in cash.

Replacement coverage ratio = Capital Debt Repayment Margin – Unfunded (Cash)Capital Replacement Allowance

Capital Debt Repayment Margin = Capital Debt Repayment Capacity – Scheduled Principal & Interest on term loans and leases.

Capital Debt Repayment Capacity = Net Income + Depreciation Expense + Non-Farm/Business Income – Family Living Expenses & Income Taxes + Interest Expense on Term Loans

The greater the ratio of more than 1, the greater the margin to cover the debt.

Capital Debt Repayment Capacity

Scheduled principal and interest payment on term loan and leases

Capital Debt Repayment Capacity

= Net Income + Depreciation Expense + Non-Farm/Business Income – Family Living Expenses & Income Taxes + Interest Expense on Term Loans

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<table>
<thead>
<tr>
<th>Financial Efficiency</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>If the ratio equals 1,</strong> the debt payments could be made, but there would be nothing left over.</td>
<td></td>
</tr>
</tbody>
</table>

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\[ \text{Gross revenue} / (\text{Average total business assets}) \]

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\[ \frac{\text{Total operating expense} - \text{Depreciation expense} - \text{Amortization expense}}{\text{Gross revenue}} \]

- Higher operating ratios are associated with farms with hired labor or larger proportions of their land and machinery rented.

### Interest Expense Ratio

The interest expense ratio shows the relationship between interest expense to gross revenues.

\[ \frac{\text{Total farm interest expense}}{\text{Gross revenue}} \]

- Ratios higher than the average may indicate too much dependence on borrowed money or a high-interest rate on existing debt.

### Depreciation Expense Ratio

The depreciation expense ratio reflects the amount of income that is required to maintain the capital being used by the farm. It depicts the relationship between all operating expenses to gross revenues.

\[ \text{Depreciation} – \text{Expense Ratio} = \frac{\text{Depreciation}}{\text{Gross Income}} \]

The lower the percentage, the better since a higher percentage indicates the farm is using its capital too fast.
## Diagnosing A Farm Problem

<table>
<thead>
<tr>
<th><strong>Liquidity</strong></th>
<th><strong>Solvency</strong></th>
<th><strong>Profitability</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>If there is an issue with liquidity do the following:</td>
<td>For solvency issues do the following:</td>
<td>For issues with profitability check:</td>
</tr>
<tr>
<td>Refinance current debt</td>
<td>Retain more net income</td>
<td></td>
</tr>
<tr>
<td>Slow expansion</td>
<td>Sell assets to reduce debt</td>
<td>Volume of resources, if too low:</td>
</tr>
<tr>
<td>Liquidate assets</td>
<td>Attract outside equity</td>
<td>Look for expansion</td>
</tr>
<tr>
<td>Reduce operating debt</td>
<td>Improve profitability</td>
<td>Use credit</td>
</tr>
<tr>
<td>Withdraw less</td>
<td></td>
<td>Hire more labor</td>
</tr>
<tr>
<td>Improve profitability</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Economic Efficiency
If too low, check

### Selling Prices
If too low:
- Use other marketing tools
- Check other markets
- Improve product quality

### Physical Efficiency
If low:
- Improve production practices
- Use higher quality inputs
- Change enterprises

### Input Prices
If too high:
- Check other suppliers
- Buy raw materials
- Try used equipment
# Farm Financial Scorecard

Using Recommended Measures from the Farm Financial Standards Council (FFSC)

## Year: 20__

<table>
<thead>
<tr>
<th>Category</th>
<th>Your Farm:</th>
<th>Desired Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Liquidity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current Ratio</td>
<td>1.3</td>
<td>2.0</td>
</tr>
<tr>
<td>Working Capital %</td>
<td>10%</td>
<td>30%</td>
</tr>
<tr>
<td>Operating Expense %</td>
<td>20%</td>
<td>40%</td>
</tr>
<tr>
<td><strong>Solvency</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt-to-Asset Ratio</td>
<td>60%</td>
<td>30%</td>
</tr>
<tr>
<td>Equity-to-Asset Ratio*</td>
<td>1.5</td>
<td>0.43</td>
</tr>
<tr>
<td>Debt-to-Equity Ratio*</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Profitability</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate of Return on Assets</td>
<td>4%</td>
<td>6%</td>
</tr>
<tr>
<td>Rate of Return on Equity</td>
<td>5%</td>
<td>10%</td>
</tr>
<tr>
<td>Operating Profit Margin Ratio</td>
<td>15%</td>
<td>25%</td>
</tr>
<tr>
<td>Asset Turnover Ratio</td>
<td>30%</td>
<td>45%</td>
</tr>
<tr>
<td><strong>Repayment Capacity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt Coverage Ratio</td>
<td>1.25</td>
<td>1.75</td>
</tr>
<tr>
<td>Replacement Coverage Ratio</td>
<td>1.1</td>
<td>1.5</td>
</tr>
<tr>
<td>Term Debt &amp; Finance Lease Coverage Ratio*</td>
<td>1.25</td>
<td>1.75</td>
</tr>
<tr>
<td><strong>Financial Efficiency</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Expense Ratio</td>
<td>80%</td>
<td>60%</td>
</tr>
<tr>
<td>Depreciation Expense Ratio</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>Interest Expense Ratio</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>Net Farm Income Ratio</td>
<td>10%</td>
<td>20%</td>
</tr>
</tbody>
</table>


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University of Minnesota FINPACk  Farm Financial Scorecard (2002)
Risk Diversification Strategy

Like any farming enterprise, Agritourism operates in a different environment than many businesses. Its reliance on biological processes, such as the weather, fixed land supply, small-size farms, and perfect competitive economic environment, makes it vulnerable and affects decisions. Agritourism enterprises can be affected by sudden changes in weather, like thunderstorms and blizzards. The unpredictability of the climate and the onset of diseases may affect crops and livestock. The fixed nature of land in agriculture affects how much a farm can produce and the services able to be offered.

Risk factors that affect most agricultural enterprises are the adoption of and reliability of new technology, and the variability of prices for products and services. Other factors are accessibility of markets, cost of input, cost of borrowing, legal actions and liability suits, health and safety laws, and access to labor. All these risks are interrelated and solving one will help minimize the problem in the other. For example, the ability for debt repayment depends on production levels or services offered and the prices received for these products and services. These and many other factors introduce the element of risks. Sources of agricultural risks can be summarized into production, marketing, financial, legal, and personal risks.

Risk Bearing Ability and Attitude

Risk management limits risk to the level that agritourism operators can bear rather than eliminate all the risks. Agritourism owners differ greatly in their readiness to accept risk and their ability to endure any unfavorable outcomes of their risky actions. The ability to bear risk depends on the agritourism operation; high-leverage farms are less tolerant of risk because of their high dependence on debt. However, farms with much equity capital are more tolerant to risk since they are much more equipped to withstand a loss. Cash flow commitments can affect the ability to bear risk. Owners with high living expenses and costs, or low income, have no outside support, are more susceptible to risk, and should not expose themselves to many risks.

Willingness to Bear Risk

Willingness to bear risk is an individual decision. Family responsibility, age, financial commitment, past financial experiences, emotional health, cultural values, community perceptions, cultural values, and other reasons affect a farmer's decision to accept risk. Some agritourism owners may be risk avoiders who are unwilling to take a risk even though they may have a strong base and cash flow due to their experience. Others are willing to take on some risk if they are sure of receiving an increased return.

Decision Making Under Risk

Decision-making under risk requires a lot of consideration and the analysis of various strategies. Therefore, decision-making involves the steps below.
❖ Identify the various sources of risk.
❖ Identify the possible outcomes of an event, such as the various weather conditions, prices, and probabilities.
❖ List the alternative strategies available. The results of each possible outcome should be quantified for each strategy.
❖ Each strategy's expected returns and risks should be estimated, and their trade-offs should be evaluated.

An example of the above steps can be illustrated. An agritourism operator may plan for the year ahead and decide to market farm events by offering tickets for sale in advance to capture more visitors. The main source of risk under this scenario is the weather because it affects the willingness of visitors to engage in the farm event and if the farm would be able to offer the said event. Although preparations for the event may vary for the operation depending on whether they offer products or services, the results will be the same because they welcome visitors to the farm for an experience.

The fact that Agritourism is weather dependent affects risk mitigation. Bad weather may impact travel and the willingness of visitors to engage in farm activity.

Another negative risk factor is the outbreak of diseases; the recent Covid-19 outbreak impacted most agritourism farms because of the rule of social distancing. Fortunately, the farms were somewhat shielded because most of the farm activities were outdoors. In this situation, management allowed a few people to their farms within allocated time intervals; walk-ins were minimized, social distancing rules enforced, and hygiene procedures and protocols for employees and visitors followed.

**Tools for Managing Risk**

Various tools are available to manage risk. Risk management may follow one of the general approaches below.

❖ Minimize the unpredictability of probable effects; to result in a reduction of a bad outcome and a reduction of a good outcome.
❖ Due to the variability in pricing, business owners must wait to lock in their decisions too soon; rather wait until the decision will not cause a decrease in revenue or cash flow.
❖ Management can set a minimum price and income buffer, allowing the farm to break even. This way, they are still able to increase pricing during peak seasons.
❖ Management should take on bearable risks and work on increasing risk tolerance through marketing efforts, production management, employee training, pricing analysis, and other decisions to mitigate and increase risk tolerance.
❖ They can also manage risk using modern technology to analyze the weather and plan accordingly.
❖ Change production methods to increase crop yields and plan efficiently.
❖ Diversify to increase income and retain income. A U-pick can add a cidery to its operation to increase revenue and maintain a cash flow stream in the slow seasons.
❖ Advertise farm events and seasons in advance to make the public aware of your programs and offer them the chance to buy advance tickets for the season, allowing customers to plan accordingly.
❖ Every farm aims to have consistent cash flow, be able to furnish short-term debt obligations when they arise, payoff long-term debts, and acquire and increase assets to shield the business. Management can shield the business by using owner's equity to finance the business or go for a fixed interest rate loan instead of a variable interest rate.

Depreciation

Farming is inevitable without farm assets such as equipment, buildings, and machinery. Over time, these assets become obsolete and depreciate, a loss and an expense for the farm. Depreciation is the annual loss in the value of properties due to wear, tear, use, deterioration, and obsolescence. It is a deduction on the income tax returns.

For an asset to be depreciable, it must be your property. It should be useful for more than a year, it must be for your business use rather than for personal use, and it must have a determinable useful life, not an unlimited one. To claim ownership of a property, you must have the legal title, pay for the property and its taxes, assume the risk of loss for the property, and be responsible for the operating and maintenance expenses.

Farm properties include equipment, buildings, vehicles, office furniture, machinery, fences, breeding livestock, livestock, dairy cattle, hogs, grain bins, greenhouses, dams, drainage tiles, irrigating wells and systems, water wells, ponds, dams, and horticulture structures. It must be noted that land is not considered a depreciation asset because of its unlimited useful life. However, land improvements, like shrubs and drainage tiles, are allowed as a depreciable expense.

The Internal Revenue Service (IRS) requires that a farm structure be used to qualify as a depreciation expense for the purpose for which it was built and nothing else. Per their example, a hog barn will not be a qualifying property if you use it to house poultry. Also, if you are using part of your greenhouse to sell plants, it will make the greenhouse a nonqualifying property. According to the IRS, "If a structure includes a workspace, the workspace can be used only for the following activities."

❖ Stocking, caring for or collecting livestock or plants or their produce.
❖ Maintaining the enclosure or structure.
❖ Maintaining or replacing the equipment or stock enclosed or housed in the structure.
To further discuss, we need to know these terms.

❖ **Useful life** is the number of years that the business will use the property, which may not be the potential life of the property if it were traded or worn out.

❖ **Salvage life**: the expected market value of a property when it has exhausted its assigned useful life.

❖ **Book value** is the difference between asset costs and accrued depreciation.

❖ **Market Value**: the price at which an asset can be sold in the current market.

Farm depreciable assets are between these ranges: 3, 5, 7, 10, 15, or 20 range.

❖ 3 years: breeding hogs

❖ 5 years: automobiles, breeding cattle and sheep, dairy cattle and sheep, computers

❖ 7 years: farm machinery and equipment, office furniture, silos, grain bins

❖ 10 years: tree-bearing fruits and nuts, greenhouses

❖ 15 years: water wells drainage tiles, water wells

❖ 20 years: machine sheds and hay barns

**Depreciation Methods**

The right method of computing depreciation depends on the type of asset, its pattern of use, and the decline in market values. Below are the three most used methods.

**Straight-Line**

The straight-line method distributes the same annual depreciation amount for each year of an item's life.

\[
\text{Annual depreciation} = \frac{\text{cost} - \text{salvage value}}{\text{useful life}}
\]

Or

\[
\text{Annual depreciation} = (\text{cost} - \text{salvage value}) \times R
\]

\[
R = \left(\frac{100 \text{ percent}}{\text{useful life}}\right)
\]

*Example: if machinery = $15,000, salvage value = $3000, useful life = 10 years*

\[
\frac{15000 - 3000}{10} = 1200
\]

\[(15,000 - 3000) \times 10\% = 1,200\]

**Total depreciation** for the 10-year useful life is 1,200 x 10 = 12,000, reducing the book value to its salvage value of $3,000
**Sum-of-the-Year's Digit (SOYD)**

The SOYD is another method of estimating depreciation.

\[
\text{Annual Depreciation} = (\text{cost} - \text{salvage value}) \times \frac{RL}{SOYD}
\]

Where \( RL \) = is the remaining years of useful life. From the beginning of the year for which depreciation is being computed.

\( SOYD \) = sum of all the numbers from 1 to the estimated useful life. So, for the 10 years useful life = 1+2+3+4+5+6+7+8+9+10 = 55

Another way of finding SOYD is using the equation \([(n)(n+1)]2\), where \( n \) is the useful life.
\( (10)(11)2 = 55 \).

**Using the example above, the SOYD for the 10 years would be:**

- Year 1 :\( ($15,000-$3,000) \times 10/55 = $2,181.81 \)
- Year 2 :\( ($15,000-$3,000) \times 9/55 = $1,963.63 \)
- Year 3 :\( ($15,000-$3,000) \times 8/55 = $1,745.45 \)
- Year 4 :\( ($15,000-$3,000) \times 7/55 = $1,527.27 \)
- Year 5 :\( ($15,000-$3,000) \times 6/55 = $1,309.09 \)
- Year 6 :\( ($15,000-$3,000) \times 5/55 = $1,090.90 \)
- Year 7 :\( ($15,000-$3,000) \times 4/55 = $872.72 \)
- Year 8 :\( ($15,000-$3,000) \times 3/55 = $654.54 \)
- Year 9 :\( ($15,000-$3,000) \times 2/55 = $436.36 \)
- Year 10 :\( ($15,000-$3,000) \times 1/55 = $218.18 \)

The annual depreciation decreases by a constant amount each year after the first year, when it is the highest.

**The Declining Balance Method**

\[
\text{Annual Depreciation} = (\text{book value at the beginning of the year}) \times R
\]

Where \( R= \) a constant percentage or rate

The same \( R \) rate is used for each year; however, the book value declines each year by the previous year’s depreciation amount, which makes the annual depreciation decline each year. This results in a higher depreciation amount for the earlier years of the asset’s useful life, and it
slows as it nears the end of its useful life. To calculate this, we need to use a multiple of the straight-line rate; 200 or doubles, 175, 150, or 125 percent as the R. Using the previous percentage rate, the DB method would be;

Year 1: $15,000 x 20% = $3,000  
Year 2: $12,000 x 20% = $2,400  
Year 3: $9,600 x 20% = $1,920

Switching to the straight-line method after some years is recommended to gain the full allowable depreciation.

**The Modified Accelerated Cost Recovery System (MACRS)**

For income tax purposes, the Internal Revenue Service (IRS) has rules that must be followed to depreciate farm assets. The tax depreciation system is called the Modified Accelerated Cost Recovery System (MACRS).

Per IRS rule, MACRS must be used to depreciate most business and investment property placed in service after 1986. You cannot use MACRS to depreciate the following property:

- Intangible property.
- Films, videotapes, and recordings.
- Certain corporate or partnership property acquired in a nontaxable transfer.
- Property you elected to exclude from MACRS.

Legal Risk

Agritourism involves risks, and farm owners must protect themselves from liability. Legal risk creates liability for the farm if not well managed. Estate planning, farm business organization, and liability insurance are among the legal risk issues that should be carefully planned and managed to reduce and avoid risk.

FORMS OF FARM BUSINESS ORGANIZATION

The running of any business involves decision-making, goal setting that aligns with personal values, and ensuring that these decisions comply with the law. Agritourism enterprises are not exempted from these processes. Every business desire to pay off its debt and profit, stay in business, and pass the business on to the next generation. The choice of a business structure is an important factor in making a decision; it affects your taxes, debts, profits, and risk, among others. A business structure can be chosen at any level/stage in the business life cycle.

An agritourism business goes through a life cycle. The entry stage is when decisions are made about going into the business. The growth stage is when the business expands through financing and personal equity. The consolidation stage focuses on doing business more efficiently and reducing debt. The last stage is the exit stage, where decisions are made about the continuation/transfer of the business, and risk reduction is important at this stage.

Many forms of business structure/organization are available for farmers, but they generally gravitate towards these three: sole proprietorship, partnership, and corporation. There are other forms like limited liability cooperations and cooperatives. Below is a chart from the USDA 2017 Census of Agriculture - National Agricultural Statistics Service showing the percentages of the forms of the farm business. We can see from the NASS data that most farms are organized as sole proprietorships.

When choosing a business structure, the farmer must consider where in the stage of the business life cycle they are. That will determine what they need; if they want to partner or not, owner's equity in the business, debt obligations, tax obligations, and succession plans, among others. Before selecting a farm organization, ensure you have dealt with issues like ownership, decision-making, short and long-term goals, liability, and taxes.  
https://dos.ny.gov/types-businesses-operating-new-york-state

Sole Proprietorship

A sole proprietorship is a form of business organization that comprises one owner or family. The owner is responsible for daily business management; he is solely responsible for debt and profit, success, and failure and takes on all the risks associated with the farm business. Irrespective of the level of risk that it assumes, it is the easiest to form and manage since there are no contracts to be signed with any business partners. It does not require any special permit or certification, and the business size is not an issue. It offers flexibility for decision-making because there is no reliance on anyone to decide. The drawback of a sole proprietorship is that lenders can claim the personal assets of the owner to satisfy business debt obligations. Income taxes on the business are the sole responsibility of the owner, and in the event, the owner passes away, the business will have to be sold or set up under a new owner.

Partnerships

A partnership involves two or more people sharing ownership of the business to make a profit. A Partnership can be formed to last for a short or long period. A person's responsibility for finances and debts is restricted to the percentages invested in the business. Partners share management control of the business, and both are responsible for debt incurred and share in the business's profit. The responsibilities of partners should be spelled out in the agreement for both parties to agree. A party's obligations to the business are dependent on their level of investment in the business. However, unless this arrangement is written down in an agreement, the laws of most states allow for equality in every decision made on income tax payment, financial responsibility, ownership, management, and sharing of profits and losses. A business partnership termination occurs when a partner dies, by mutual agreement between partners, or by the date set up on the agreement when both partners formed the business. A partnership agreement allows for flexibility in its formation by allowing other partners to join the business. A downside is that partners are held individually and personally responsible for business debts and lawsuits. Creditors can go after partners individually to cover debts the business could not remit. Partners do not pay income tax as an entity; rather, income from the business is reported individually on each partner's tax returns. Each partner's responsibility is divided equally or is based on their percentage or shares in the business.

Corporations

A corporation is formed based on the state's laws and is considered a separate legal entity detached from its owners, managers, and employees. This is what differentiates a corporation from other forms of business organization. States vary in their laws concerning the formation of a corporation. For example, the laws of New York State require that at least one incorporator signs a certificate of Incorporation, which must be filed with the state. https://dos.ny.gov/types-businesses-operating-new-york-state
Corporations are more costly to form and manage than other forms of business organization. As a separate legal entity, a corporation can sue and be sued, own properties, enter contracts, invest, and have the flexibility of raising funds through investors and stocks. Shareholders own a corporation; therefore, an exit of a shareholder will not dissolve or terminate its existence. A corporation is formed by incorporators who then become shareholders and, in turn, elect directors to manage the business. The board of directors elects officers responsible for the business's daily affairs. For income tax purposes, corporations are recognized as C or S corporations. C corporation may be double taxed; the company pays taxes on taxable Income, and shareholders also pay taxes on dividends received from the business. S corporation, on the other hand, is termed a "tax-option" corporation as such, receives a pass for tax payment. Shareholders pay taxes on their dividends, but the corporation does not pay any taxes. Their treatment is like that of a partnership. Creditors of the corporation cannot go after the assets of shareholders, but if anyone should co-sign for a loan, they could be held liable for payment. A corporation is not terminated with the death of a shareholder, the shares could be passed on to their heirs, and they could either keep or sell it.

**Limited Liability Companies (LLC)**

A limited liability company can be formed by an individual or multiple members referred to as members. It is like an S corporation but benefits from the flow-through taxation of a partnership. The organizational requirement of an LLC differs by state; NYS requires that Articles of Organization be filled with the state and signed by one or more members of the LLC. It also offers the member an option to be classified as a partnership or a corporation (association) for tax purposes. An LLC can be formed to last for a declared stipulated period and dissolved at any time. The business is owned by both members, with allocations based on each member's contributions, and members can be a part of management. The business is not passed on when a member passes on or leaves the LLC; it must be dissolved in the event this happens, when a member decides to part ways or when the company declares bankruptcy. Members agree on how the LLC should be managed. Creditors can go after the assets of the LLC to pay off debts owed to them rather than after the personal properties of its members. Members of an LLC share in the business's profits and losses as agreed in the operating agreement or based on each member's contribution to the LLC.


**Cooperatives**

A Cooperative (Co-op) can be formed by two or more people who become members of the cooperative to meet a common need of production, processing, bargaining, and marketing opportunities and ultimately to increase Income for its members. Ownership is based on the products and services, and equity capital members contribute to the Co-op. Membership in a Co-op can be bought and sold. A cooperative, like a corporation, must have by-laws, detailed records, and articles of agreement. They make decisions and set policies for the Co-op.
Members have equal voting rights, and voting rights are not based on equity contributions; rather, one vote is given to each Co-op member. A Co-op receives a pass-through for tax purposes, but members pay taxes on their income earned from the Co-op.

**BUSINESS ENTITY COMPARISON CHART**

<table>
<thead>
<tr>
<th>Details</th>
<th>Sole Proprietorship</th>
<th>General Partnership</th>
<th>C Corporation</th>
<th>S Corporation</th>
<th>Limited Liability Company (LLC)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business Formation</strong></td>
<td>City tax license may be required. No state filing required.</td>
<td>No state filing required. An agreement between two or more parties. Partnership agreement should be created.</td>
<td>Required to file formation documents with the State filing agency. Most states require annual meetings and bylaws.</td>
<td>Same as C corporation. Must elect S status through the IRS, additional filing required.</td>
<td>Required to file formation document with the State filing agency. Most states require an Operating Agreement.</td>
</tr>
<tr>
<td><strong>Number of owners</strong></td>
<td>Only one sole proprietor</td>
<td>Minimum two general partners</td>
<td>Most states allow one person corporations; some require two to serve as officers.</td>
<td>Same as Corp. but no more than 100 members/ Shareholders permitted.</td>
<td>Most states allow single member LLCs but some require 2 or more</td>
</tr>
<tr>
<td><strong>Raising Capital</strong></td>
<td>Owner typically contributes all funds.</td>
<td>Partners contribute capital. More capital can be raised by adding new partners.</td>
<td>Sell stock to raise capital.</td>
<td>Sell stock to raise capital.</td>
<td>Some operating agreements allow interest to be sold.</td>
</tr>
<tr>
<td><strong>Length of existence</strong></td>
<td>Terminated if business ceases or upon owner’s death</td>
<td>Dissolves upon partner’s death or withdrawal, unless stated in the partnership agreement.</td>
<td>Perpetual as a separate legal entity.</td>
<td>Perpetual as a separate legal entity.</td>
<td>Perpetual as a separate legal entity</td>
</tr>
<tr>
<td><strong>Operational Requirements</strong></td>
<td>Relatively few legal requirements.</td>
<td>Relatively few legal requirements.</td>
<td>Board of Directors, officers, annual meetings, and annual reporting required.</td>
<td>Board of Directors, officers, annual meetings, and annual reporting required.</td>
<td>Some formal requirements but less formal than corporations.</td>
</tr>
<tr>
<td><strong>Management</strong></td>
<td>Sole Proprietor has full control of management and operations.</td>
<td>Typically each partner has an equal voice, unless otherwise arranged.</td>
<td>Managed by directors, who are elected by the shareholders.</td>
<td>Managed by the directors, who are elected by the shareholders.</td>
<td>Members have an operating agreement that outlines management.</td>
</tr>
<tr>
<td><strong>Liability</strong></td>
<td>Unlimited liability.</td>
<td>Unlimited liability. A partner can be held liable for the acts of the other partners, increasing personal liability.</td>
<td>Shareholders are typically not personally liable for the debts of the Corporation.</td>
<td>Shareholders are typically not personally liable for the debts of the Corporation.</td>
<td>Members are not typically liable for the debts of the LLC</td>
</tr>
<tr>
<td><strong>Taxation</strong></td>
<td>Taxed once. Owner is responsible for any taxes due.</td>
<td>Taxed once. Partners are responsible for any taxes due.</td>
<td>Double; both the corporation and shareholders are taxed.</td>
<td>Taxed once. Owners responsible for any taxes due.</td>
<td>Taxed once. Owners responsible for any taxes due.</td>
</tr>
<tr>
<td><strong>Pass through taxation for income &amp; loss</strong></td>
<td>Yes. Profits increase owner’s personal taxes.</td>
<td>Yes. Profits increase owner’s personal taxes.</td>
<td>No</td>
<td>Yes. Profits increase owners’ personal taxes.</td>
<td>Yes. Profits increase owners’ personal taxes.</td>
</tr>
<tr>
<td><strong>Interest transferability</strong></td>
<td>No unless business is sold to another party.</td>
<td>No</td>
<td>Shares of stock are easily transferred.</td>
<td>Yes. Some IRS regulations on stock ownership.</td>
<td>Depends on operating agreement.</td>
</tr>
<tr>
<td><strong>Best suited for</strong></td>
<td>Single owner business. Taxes or product liability not a concern.</td>
<td>Business with partners. Taxes or product liability are not a concern.</td>
<td>Single or multiple owner business. Owners need company funded fringe benefits and liability protection.</td>
<td>Same as C corporation.</td>
<td>Single or multiple owner business. Owners need limited liability but want to be taxed as a partnership.</td>
</tr>
<tr>
<td><strong>Example</strong></td>
<td>Mom &amp; Pop Ice cream Shop.</td>
<td>Land Developer.</td>
<td>Software company.</td>
<td>Print shop, Pizza parlor, Interior Design.</td>
<td>Real Estate Investment, Motion Picture.</td>
</tr>
</tbody>
</table>

*Nevada Small Business Development Center, www.nsbdc.org*
ESTATE PLANNING

One of the most pressing issues for agritourism operators is the continuation of the farm business in their absence. A will and an estate plan will ensure an easy transition of the business to heirs and beneficiaries. Estate planning helps with the ease of transfer of the agritourism business from one generation to another generation. It also avoids unnecessary conflicts among heirs. In addition, estate planning is important in avoiding a huge estate tax bill during a farm business transfer. Finally, without a successor, the business owner can plan to keep the farm in agriculture through conservation easements.

Every farm business is unique, but the most important requirement of succession are assets (farmland, machinery) and operations (the business). The farmer should contact an experienced estate planner or lawyer to help him through the process. There is no one-size-fits-all approach to this; it will depend on one's choice of leaving the farm to their heirs or wanting to sell it.

The farmer's approach should be discussed with a lawyer or farm estate planner. However, if the decision is made to transfer the farm to the next generation, the owner must consider these factors first.

- The emotional readiness of the owner to transfer the farm.
- The health status of the agritourism owner.
- The financial stability of the agritourism owner for retirement.
- The health position of the farm owner.
- The financial strength of the farm heirs.

Once the above factors have been considered, the owner must also do a personal assessment of himself by considering the questions:

- If the farm is profitable enough to add another person.
- If the farm is large enough to employ another person.
- If the responsibilities of management can be shared.
- Willingness to lease, gift, or transfer assets at less than current market prices.
- His ability to financially support an additional family.

The key areas of a farm transfer which are ownership, income, and management of the farm, will depend on the type of farm organization chosen and how soon the transfer will happen. Farm ownership can be transferred slowly to allow heirs to learn about farming. It is recommended that heirs take up to 5 years to learn the business. There are three stages of farm transfer.

- The first stage is the testing stage. During the testing stage, heirs can be employed on the farm to receive income and incentives like any other employee. However, both parties should wait until they determine their goals before selecting a form of farm organization and asset acquisitions that will otherwise create difficulties in liquidating
their assets. The heirs may decide not to go into farming after the testing stage, but if they decide to take on farming, one of the alternatives below could be suitable.

- The option allows both parties to choose their respective operations but share the same resources like machinery, equipment, and labor.
- The next option allows the farm owner to retire from farming and hand over the farm to the next generation either through sale or rent. A detailed budget is necessary to ensure that there would be income left over for the owner’s living expenses after the lease and mortgage payments are satisfied. There is no need for expansion at this stage of the business.
- Another option is for the two generations (owner and heir) to agree to a joint operation or management of the farm together. Co-management skills should be developed and enforced for the successful management of the farm. The expansion of the business would be necessary at this stage to accommodate both generations. They can choose to diversify and use efficient methods to maximize income. They can choose to be organized as a partnership, LLC, or corporation or enter into a joint operating agreement.

In cases where there is more than one heir, the farm owner can decide to divide his operation among the heirs by assigning percentages to them. If the purpose is to continue farming through the generations, then the choice of who inherits the farming operation should be paramount. The farmer can decide to leave the aspects of control of the operations and production of the farm to the more involved and experienced heir.

**Farm Trust**

Farmers can have a farm trust to avoid conflicts and unnecessary tax payments after their demise. A trust allows the farmer to hold, manage and distribute his assets; by taking his assets through life and distributing them to respective heirs after his demise. Trusts are the basic element in estate planning. Every trust must have these basic elements to function.

- The **Trust Property** (Farmland, farm business, other assets, or cash)
- The **Trustee** (the farm owner or a trusted representative)
- The **Beneficiary** (heirs; children, business partners, or others)
- **Instructions** for use and distribution

The farm owner can choose from these types of trust arrangements.

- **Revocable Living Trust (RLT):** It is very flexible and can be amended before the demise of the farmer owner. It is set up to be used through the life and death of the farmer. This choice allows heirs to be engaged in the farm business. In case of incapacitation or disability, the farm can be managed. The RLT allows the farmer to put their assets into a trust, called a bucket, a formal property transfer into RLT. At this stage, the farmer does not directly own the trust but owns them through the trust. The RLT allows the farmer
to manage and transfer his assets. The advantages of an RLT are that it allows for the incorporation of purchase agreements and other provisions into the trust, giving heirs the opportunity spread out payments and allow them to buy in on terms they can afford while giving the farmer a safe exit. Again, RLTs help the estate avoid the probate process, saving heirs time, expenses, delays, and conflicts and allowing for a smooth transfer after the farm owner's death.

- **Irrevocable Living Trust**: This choice allows the farmer to use the property during the farmer's life. This decision cannot be changed, and the assets cannot be reclaimed; control of the property is lost and cannot be revoked. The assets in this form of trust are not available to creditors to claim and bring a suit against it.
- **Testamentary Trust**: This trust is only effective after the farmer's death and is created through a will. This choice is best for asset protection and minimization of estate taxes.

Some assets like **Employee Retirement Income Security Act (ERISA) qualified retirement plans** and homesteaded property are exempted from lawsuit judgments and credit claims. Homestead exemptions protect the farmer's home from litigation after his demise, his spouse's demise, or bankruptcy. The homestead tax further provides ongoing property tax relief for surviving spouses.

**Are Farmers Tax-Exempt?**

It depends on the area of taxation. Farmers pay income tax and property taxes, but farmers can get a tax-exemption for sales tax on qualified farm-related purchases.

- **Seeds and Plants** - the sale of seeds and plants are exempt from sales tax.
- **Fertilizers** - the sale of certain fertilizers is exempt from sales tax. Packaged soil amendments like hay, peat moss, and straw do not qualify.
- **Farm Equipment and Machinery** - as a general rule, the sale of farm equipment and machinery is taxable. However, the purchase of certain farm equipment and machinery is partially exempt from sales tax. Currently, the partial exemption is at 5%.

**Tax Breaks for Farmers**

There are a number of special tax code provisions related to farming that may be available if you qualify. However, be sure to check with your accountant as rules vary state to state. Here are several for possible consideration.

- **Depreciation Deductions** - farmers can take advantage of write-offs for property placed in service. A farmer can claim a maximum expensing deduction of $510,000 under Section 179.
- **Crop Insurance Proceeds** - purchased to protect against losses caused by natural disasters - such as hail, drought, and floods - or lost revenue due to declines in agricultural commodity prices.
- **Sales Due to Weather** - If a farmer sells more livestock and poultry than would normally occur in a year because of weather conditions, the business is granted a reprieve. It can postpone reporting the gain from sales due to weather until the following year.
• **Net Operating Losses** - if the deductions claimed by a farm operation exceed its profits, it may report a net operating loss (NOL). The NOL can be carried back for two years and then forward for up to 20 years to offset income in other years.

• **Fuel and Road Use** - Farm operators can claim a credit or refund of federal excise taxes on fuel used on farm for farming purposes.

**TIPS FOR SELLING A FARM**

If you are reaching the end of your farming career and have chosen not to pass it on to the next generation, you are probably thinking about selling. Whether you are trying to sell it independently or are using a real estate professional specialized in farmland there are some things you should keep in mind.

**Gathering Information helps make Informed Decisions**

❖ The most important information to have clarity on is ownership. Who is listed on the deed as the owner? Can you legally sell the property? This one seems obvious, but often heirs try to sell land and the deed filed at the courthouse shows the parents as the owners. Typically, this can be easily corrected with some legal assistance.

**Discuss the Sale with a CPA**

❖ A CPA will be able to help you understand the tax implications of the sale. At times, some individuals choose to exchange one property for another and are able to avoid capital gains taxes from a sale. This is called a 1031 exchange.

**Know Recent Comparable Sale Prices**

❖ A farmland real estate professional can help you set a fair market asking price. Use an accredited rural appraiser through the American Society of Farm Managers and Rural Appraisers (ASFMRA) to get started.

**Understand the Farm’s Characteristics**

❖ It is important to know the total acres, cultivatable acres, timber acres, pasture acres, pond sizes, etc. Irrigation is another factor. Potential buyers may want to know when a well was installed, its depth, pump size, casing size, and capacity.

**Other Important Farm Sale Factors**

❖ Include the farm’s yield history, environmental factors, drainage, potential property uses, restrictions to use, recreational uses, mineral rights, air rights, easements, property taxes, and improvements made over the years. The more thorough you are, the better.

**CONCLUSION AND TAKEAWAYS**

❖ If you made it this far, you are probably seriously considering taking advantage of all the current advantages available with farm estate planning. Even if the conditions were not
as favorable as they are with the generous tax exemption increase, farm estate planning is always desirable.

Copied from Farm Estate Planning | Farm Succession Planning | Open Advisors LLC. https://www.myopenadvisors.com/farm-estate-planning

Insurance

Many states have Agritourism indemnity laws protecting owners of agritourism operations from lawsuits arising from inherent risks associated with agritourism activities; if certain measures are met. However, these laws do not protect them against all the risks involved with the operation; they would have to consider additional insurance to protect them further.

Liability insurance protects agritourism operations against lawsuits that may arise from personal injuries and damages. Liability claims on the farm may occur when visitors get injured or even eat contaminated food. There are different types of insurance to cater to the diverse needs of farmers. Agritourism operators should consult with a lawyer or an insurance agent to assist them in choosing the right type of insurance for their operation.

Types of Insurance

General Liability
❖ General liability insurance protects agritourism operators from liabilities that may occur due to injuries or damages to customers' properties. It can pay for slips and falls and medical bills.

Property Insurance
❖ Commercial property insurance can protect agritourism businesses from damages to the physical properties of the farm. Damages to buildings, fires, indoor and outdoor fixtures like fences, signs, lightning, hail, and others. The insurance protects your buildings, equipment inventory, and outdoor items.

Workers Compensation
❖ Workers' Compensation insurance provides for employees in the event of occupational injury or illness. For example, the insurance may cover medical bills, rehabilitation, a percentage of lost wages, and compensation of benefits paid to beneficiaries if an employee is killed on the job.

Business Income
❖ Business income insurance covers the business owner for payroll, relocation expenses, lost income, and temporary closure of business.

Commercial Auto
Commercial auto insurance covers vehicles used for farm operations. There are three forms of coverage under commercial auto insurance. First, auto liability coverage may cover medical and legal expenses if an employee is at fault in an accident or damages another person's property. Collision and comprehensive coverage reimburse for repairs to damages of the business vehicle after an accident or covered incident.

Umbrella Insurance

Umbrella insurance is an added layer of protection to the business's liability policy. It provides additional coverage when claims against the business exceed the policy limit. It acts as a buffer to shield the farm from excess claims.

Product liability

Product Liability insurance protects the business from claims arriving out of the products they sell or serve to customers. For example, suppose a visitor to your farm should get sick from eating food served or selling a contaminated product to a customer. In that case, the product liability insurance will protect you and pay for damages should you be sued.

Insurance Discussion Sheet

The following information and questions are designed to provide basic guidance for meeting with your insurance agent. These items can be used to start the discussion, but there may be more items to discuss that are specific to your operation.

Choosing an insurance company

Choose a company whose representatives understand your operation and the risk associated with it. This includes agents, claims adjusters, underwriters, auditors and loss control staff.

Find out what kind of financial strength the insurance company has. This is an indication of their ability to pay claims. Ask what their A.M. Best Rating is: “A++” is the best.

Find out what kind of experience they have with operations like yours. How many others do they insure?

Ask leading questions about your operation and hypothetical (or real) examples of losses. Ensure they can answer your questions. This will help you determine if they can provide the coverages you need.

Meet with your insurance agent regularly to discuss your operation.

At minimum you should do this prior to opening for the season.
If open all year, meet at least annually.
Meet whenever you make a change to your operation and consider consulting
your agent before implementing changes.

Questions for your insurance agent:

❖ Are there any property or liability exclusions or limitations that will affect my coverages?
❖ Will I be able to replace my damaged property with the coverages I have purchased?
❖ Are there any additional coverages I haven’t purchased that may help protect my assets if an accident were to occur?
❖ When will you have someone such as an Underwriter or a Loss Control Inspector come and review my operation? Is there anything I can do to prepare?
❖ Do I need current certificates of insurance from my vendors? Do they need to list us as additional insureds on their policy? Do the vendors need to have limits equal to or higher than my limits?
❖ Is there anything specific I will be asked to report to the insurance company, such as gross receipts or number of visitors?
❖ Do I need to review workers compensation insurance with you?

Questions about documentation for your insurance agent

❖ Do I need to provide proof to you that my fire extinguishers have been serviced, or just keep records on file at the farm?
❖ Do you need a copy of my emergency plan and/or documentation that my employees and family have been trained on the plan?
❖ Do I need to document that the local emergency responders such as the fire department and police visited my farm? Do you need a copy for your files?
❖ Do you need copies of all local permits (like a health department permit), or do I just need to keep them on file?
❖ Do you need copies of completed checklists, photographs or other documentation that demonstrates that safety practices are in place and regularly reviewed for the following items?
  ➢ Hand washing stations and restrooms
  ➢ Signs (appropriate signs posted, legible, in good condition, etc.)
  ➢ Inspections performed (e.g., for slip, trip and fall hazards, equipment in good condition, buildings well maintained, etc.)
  ➢ Log sheets for cleaning, disinfections, refrigerator temperatures, etc.
  ➢ Animals: regular wellness checks from a veterinarian and vaccination records
  ➢ Designated parking and walking areas to help control the flow of traffic
  ➢ Emergency contact numbers posted in a visible place

❖ Is there anything other documentation or policies that you need copies of or that we need to keep on file?
**Keep in mind**

- Keeping documentation of all safety strategies, including policies and inspections, demonstrates that you have these elements in place. This is important in the event of an injury on your operation. Sharing this documentation with your insurance company may help them understand your operation better.
- Don’t be afraid to ask questions, ask for clarification, or even challenge your agent when something doesn’t seem right. It is important that you and your insurance agent work together to ensure you have the coverage you need. The best time to do this is before a claim occurs.

Copied from Resources that can be used to address these checklist items are available at [www.safeagritourism.org/Resources](http://www.safeagritourism.org/Resources).

**Agritourism and Insurance: A Checklist**

Agritourism operators may use this checklist as a tool to make sure that common insurance questions are answered, or at least considered, in the planning process. The list is not exclusive but serves as a starting point in considering the types of insurance and how much insurance is necessary for agritourism operations.

1. **Find an agritourism insurance provider.** Agritourism insurance is becoming increasingly common but not all insurance companies cover all agritourism activities, nor do all insurance agents have experience in working with agritourism clients. Some questions to ask before signing a policy include:
   - What experience do you and your company have with insuring agritourism?
   - What is your company’s A.B. Best Rating? This is a measure of financial strength.
   - What would happen in __________ situation? Run through hypotheticals with the agent.

2. **Assess insurance needs for all activities.** Review every type of agritourism activity with your insurance provider, assess the risks and coverage options for each activity, and understand whether there are exceptions, limits, or exclusions that could affect coverage for an activity. Specifically, an agritourism operator will want to know:
   - Are all of the activities provided at my agritourism operation covered by this policy?
   - What is the property or liability exclusions or limits in my agritourism policy?

3. **Create emergency response plans and training programs.** Even when all precautions are taken for safety, accidents and emergencies still occur. The harm that results from these accidents can be minimized by having a response plan in place that addresses what to do in the event of an accident or emergency, and by training staff to use the plan.
4. Regularly inspect and review the agritourism operation.
   - Do regular inspections of the property to look for dangerous conditions that might be caused by human action, or simply inherent to the property, even if your state has an agritourism immunity statute.
   - Advise your agent of any new or discontinued agritourism activities on the operation.
   - Do an annual walk-through of the property with your insurance agent.

5. Keep adequate records. Document all safety measures taken to demonstrate that the agritourism operation took all reasonable precautions. Document the presence and servicing of all safety equipment, trainings, improvements to make the premises and activities safe, injuries and emergencies, and all other things that your insurance agent requires a record of or recommends.

   - Does your applicable state immunity law require you to post a warning sign? If so, document that it is posted as required under the law.

Copied from Agritourism and Insurance - Ohio State University.

Find the Right Agritourism Insurance Policy for Your Farm: 5 Questions to Ask

1. Do You Have Experience with Agritourism Insurance?

   Find an insurance agent who is familiar with agritourism insurance and can answer questions about the type and amount of coverage you need. Keep your agent updated about changes to your agritourism operations. Adding (or eliminating) activities could change your coverage requirements.

2. What Does This Agritourism Insurance Policy Cover and Exclude?

   Your insurance company may require you to carry commercial insurance (in addition to your traditional farm or ranch policy) to maximize your coverage. Not all companies provide identical coverage: One insurer may cover activities that another excludes, so make sure you get a clear picture of what’s in the policy.

3. What Farm Records Should I Keep?

   As part of maintaining your agritourism insurance policy, your insurer may require you to provide proof of appropriate farm signage, veterinary records, health department permits, and adequate health and safety equipment such as fire extinguishers and hand-washing stations.

   The National Children’s Center for Rural and Agricultural Health and Safety has free resources, including downloadable signs, to educate visitors about safety on your farm.
4. **Are There Specific Laws I Should Be Aware Of?**

Before opening your farm for agritourism activities, make sure you’re compliant with all federal, state and local laws, regulations, codes and permitting requirements. The National Agricultural Law Center reports that over half of U.S. states have enacted statutes relating to agritourism activities, including additional farm and ranch liability protections for agritourism operators. [Check the statutes](#) in your state and abide by them.

5. **Are Waivers Necessary?**

There is no substitute for adequate agritourism insurance but asking guests to sign liability waivers offers an additional layer of protection. These waivers, which outline the specific risks of various agricultural activities, are considered legal documents.

❖ **Get the Coverage You Need**

While agritourism is a great way to introduce visitors to your farm or ranch, it also opens you up to additional liability that likely isn’t covered as part of your standard farm or ranch insurance policy.


[Insurance Discussion Sheet](#)
Human Risk
Human risk in agritourism is anything or action that puts the lives of humans in danger on the farm. Human risk can affect management, employees, and visitors. In addition, these factors, disagreement, disability, divorce, and death, known as the four D’s, affect the lives of management and employees. Therefore, the sources of human risk are yourself, your family, employees, visitors, and farm safety.

Personal Risk Tools
One of the tools for mitigating human risk is health insurance. Due to the high cost of medical care, it is important to have insurance to cover medical costs. Most farmers need help obtaining health insurance coverage at a reasonable cost. Farmers should consult their insurance agents to find an affordable private plan. The government marketplace for insurance may also be a source. There may also be policies from farm organizations at a reduced premium rate compared to other private insurance. Health insurance should also be available for employees through the employer or the marketplace. Also, workers' compensation insurance will protect and provide for employees should they become ill or injured on the job. The business owner is responsible for getting workers' compensation insurance as this is a state requirement.

Life insurance also covers family members after the owner's death. Again, there are different types of life insurance to choose from.

Term Life Insurance
❖ Term life insurance policy protects family members by providing a source of income to cover the cost and pay for farm or personal debts after the demise of the farm owner.

Universal Life Insurance
❖ Universal life insurance provides for your family after death through
  • Permanent death benefit protection
  • Income tax-free death benefits for your family
  • An additional source of savings with tax benefits
  • Source of tax-free supplemental income in retirement

A survivorship life Insurance
❖ A survivorship life insurance policy can help the family operate the farm upon the owner's death. It allows for the purchase of the operation and funds to operate.
Farm Safety

Employees must be trained on farm safety to avoid risks to themselves and visitors. Therefore, employee training is one of the most important management tasks. The first important task is the onboarding process of farm employees.

Use Employee Onboarding to achieve:

1. **COMPLIANCE.** It trains the employee on compliance with regulations and policies.
2. **CLARITY.** Training on safety, work procedures, and expectations help the employee understand expectations.
3. **CULTURE.** Communicates procedures, values, traditions, and norms.
4. **CONNECTION.** Helps employees forge relationships at work and find their place to engage and thrive.

**Onboarding Action Steps**

- Prepare: Have an onboarding template available in advance. This Agricultural website has onboarding information. [https://agworkforce.cals.cornell.edu/onboarding/](https://agworkforce.cals.cornell.edu/onboarding/)
- Build tools: Build resources on the job description and standard operating procedures and create an employee handbook.
- Communicate: Inform employees about your onboarding plan. Let them know when and where to meet and what to expect.
- Get ready: Have resources in the form of training videos, paperwork, and farm maps ready for the training. Let them know about the onboarding and have them ready for introduction.
- Welcome. An owner or senior manager should meet and welcome each new employee on their first day to set the stage that new employees are important and valued. Share important parts of your farm business values and culture.
- Connect. Introduce your new employee to the existing team.
- Train. Carry out planned training activities. This is best when the employee's supervisor or a designated trainer leads.
- Evaluate. Find out if the new employee learned and retained important information. Retrain if needed and improve the onboarding program.

[https://agworkforce.cals.cornell.edu/onboarding/](https://agworkforce.cals.cornell.edu/onboarding/)
Onboarding Template
Onboarding Action Plan
Introduce the new employee:

❖ To fellow workers and key supervisors
❖ Take a farm tour and show them all areas of the farm
❖ To organizational functions and segments
❖ (How does a new employee fit into the organization?)
❖ Make the employee aware of your vision, mission, and values
❖ Show them employee bathrooms and break rooms.
❖ Train them on emergency procedures and where emergency kits are kept
❖ Where to find important information

Farm HR Self-Assessment

FARM-Safety-Self-Assessment

Employee Farm Safety Training
❖ Employees must be trained in injury and illness prevention
❖ Provide training on Pesticide safety requirements and equipment
❖ How to use and care for work equipment
❖ Train on what constitutes a farm hazard and on how to identify and locate farm hazards
❖ Train on how to use, store, and dispose of solvents and hazardous chemicals
❖ How to use personal protective equipment, including clothes, footwear, respiratory, eye, and hearing protection
❖ Teach employees about the symptoms of pesticide illness, heat stress, sunstroke, and sun exposure
❖ Teach best lifting techniques and ergonomic best practices to prevent self-injury
❖ Train employees on emergency procedures and how to use fire extinguishers and where they are located on the farm
❖ Point out where first aid and medical supplies are located
❖ Provide training on how to write and report accidents and illness

https://www.uvm.edu/aglabor/dashboard/resources/onboarding-new-employees

Plan, Conduct, and Evaluate Training Plan
Onboarding New Employees
Cornell Agricultural Workforce Development has resources on agricultural workforce.

Standard Operating Procedures (SOPs)

Standard Operating Procedures (SOPs) are written instructions for specific tasks and can help ensure that you are operating safely and in a way that prevents microbial contamination of produce. SOPs are necessary for avoiding and managing farm risk. It also helps in the efficient
management of the farm because, in the case of absence, every employee can manage the operation as the person normally in charge.

**Basic Steps in Writing SOPs**

- Title, the person who wrote the SOP, and the date written or revised.
- List of tools, supplies, or equipment needed.
- Safety precautions for hazardous procedures.
- Write each step down. Let it be simple, brief, and clear. Leave as little room for interpretation as possible.
- Have the employees who will use the SOPs assist in creating the SOP, so it is for everyone.
- Write first: SOPs for procedures that have safety concerns.
- Write next: major procedures that will positively impact your operation if they are clarified.


**Worker Health and Hygiene**

All employees must be trained and follow good hygiene practices. Training is documented during orientation for new employees and before harvest season for returning employees or workers. See the text box below for the content of the training. Signage: Signs are posted to instruct workers to wash their hands before and after handling food, harvesting, eating and smoking. Signs demonstrating how to wash hands (with soap and water after using the toilet) are posted in the toilet area.

**Clean, Potable Drinking Water**: is available, renewed daily, and the water source is documented.

**Personal Protective Equipment**: PPE is cleaned after each use to prevent contamination in the home and at work.

**Worker Training 1: Health and Hygiene**

**Proper Hand Washing**: Hands must be washed before beginning or returning to work and after the following activities: using the restroom, smoking or tobacco use, taking breaks, handling trash containers or disposing of trash, using the telephone, handling money, coughing, and sneezing. Hands are washed with soap for 20 seconds and dried with disposable towels. Water
is turned off with a disposable towel. Towels are deposited in a covered receptacle. Hands are dried before putting on gloves.

**Personal Hygiene:** All workers must:

- Wear clean work clothes
- Have clean and cut nails
- Take a daily shower
- Eat and smoke in the designated area
- No dangling strings or jewelry
- Tie back long hair
- Keep all glass containers away from the field
- Wear clean, un-ripped sanitary gloves (best are non-latex)
- Do not bring gloves into the lunchroom or restroom
- Do not use product containers for personal use

https://ucanr.edu/sites/placernevadasmallfarms/files/140713.pdf

**Worker health and Hygiene Training**

**Format for writing SOP**

- The SOP must have a title
- Include objective/purpose explaining the task and why it is important
- Scope showing where and to whom the SOP applies
- Responsibility shows whose duty it is to ensure the task is completed
- Materials show the specific items needed to complete the task
- Procedure shows, in order, the steps to the task
- Verification/documentation shows how you will verify that the procedure was completed correctly and what records you will keep

**Sample SOP: Hand Washing**

1—**Purpose**
Describes the correct method for hand washing while working or visiting the farm.

2—**Scope**
Applies to all farm employees, including farm owners, workers, and visitors.

3—**Responsibility**
Everyone on the farm should understand and practice proper hand washing, regardless of their job or activities on the farm.

4—**Materials**
- Sink
- Water
- Soap
• Single-use paper towels
• Trash can (preferably with a lid)

5—Procedure

Procedure to be completed before the beginning of work, after each break, after eating or smoking, after using the toilet, after touching animals or manure, at the end of the day, and at any other time, hands become dirty.

1. Wet hands with water.
2. Apply soap and lather. Be sure to wash the front and back of your hands and between the fingers. Rub hands together for AT LEAST 20 seconds.
3. Rinse hands thoroughly.
4. Dry with a paper towel (and turn off the faucet with a used paper towel).
5. Throw the paper towel in the trash can.


Characteristics of good SOPs:

❖ Easy and rapidly accessible to employees. Keep SOPs posted at eye level in the relevant area. Laminating SOPs or keeping them in plastic sheet covers is often helpful. Having SOPs readily accessible also makes it easier to revise them on the spot when procedures change.
❖ Able to be followed by anyone with basic knowledge. A good way to test this is to watch someone who is unfamiliar with the task try to complete the task correctly using the SOP.
❖ Written using short, direct sentences and simple words wherever possible. Bulleted or numbered lists are usually good.
❖ Use diagrams and pictures wherever appropriate. For example, diagrams of where tools/materials belong or pictures of how something should look at a certain step in the process.
❖ Separate general information from instructions.
❖ Don't micromanage. Include any essential details that must be completed in the same way by any worker. Leave out unessential details.

https://ag.umass.edu/vegetable/fact-sheets/standard-operating-procedures

Farm Food Safety

Food safety begins on the farm, from growing through harvesting and packaging of produce through transportation and finally to the consumer. Good food safety practices can help minimize and eliminate food contamination with microbial organisms. There is concern about
foodborne illnesses and consumers getting sick and dying from contamination with E.coli and salmonella. Food safety can be minimized with good food safety management on the farm. Most buyers now require produce growers to undergo certification and audits that show that they understand food safety and are making every effort to grow safe and uncontaminated food for consumption.

For agritourism operators, produce growers should abide by the produce safety rule by developing a food safety plan for their farms. Food safety for agritourism operations like pick-your-own farms is important because visitors visit their farms and pick and eat raw fruits and vegetables. Therefore, these farms should take care to minimize contamination. In addition, food safety plans and SOPs are essential to help management consistently train employees.

Food safety hazards are:
- **Biological**: pathogens and their toxic by-products plus allergens naturally present in some foods can produce viruses, parasites, bacteria, and allergens. Produce can be contaminated at any point in the food supply chain by insects, soil, water, equipment, animals, equipment, and human handling. These points of contamination can be effectively targeted at prevented.

- **Chemical**: these have to the pollution of the environment, soil, water, and air, and pesticides and agrochemicals. Employees must be trained to know the proper chemicals to use. SOPs must be developed around these. Farmers should keep good records of such products to allow easy traceability should there be any cross-contamination with food occur.

- **Physical**: these are natural and made of contaminants. They can be stones in dried beans, fragments of metal in cut food, hair in prepared food, and plastic in a salad. Employees should be trained to look for these when sorting and packing produce.

Preventive strategies may focus on:
- Composts and manure
- Worker hygiene
- Toilets and handwashing
- Soil amendment
- Water use
- Pesticides
- Wild animal
- Domesticated animal
- Postharvest handling

Below are resources for further reading.
- The Cornell GAPs program has good examples of SOPs relevant to the major food safety risk areas: [https://gaps.cornell.edu/educational-materials/decision-trees/log-sheets-sops/](https://gaps.cornell.edu/educational-materials/decision-trees/log-sheets-sops/)
Other resources

- The University of Idaho has SOPs for all the field procedures at their research farm to prevent the spread of a particularly noxious weed:
  
  http://ucanr.edu/sites/placernevadasmallfarms/files/140712.pdf

- North Carolina Extension Produce Safety: Standard Operating Procedures [Standard Operating Procedures | NC State Extension (ncsu.edu)]


- Penn State Extension - Standard Operating Procedures: A Writing Guide
  
  https://extension.psu.edu/standard-operating-procedures-a-writing-guide

- Penn State Extension [Tools for Writing a Farm Food Safety Plan](https://gaps.cornell.edu/educational-materials/farm-food-safety-plan-template/)


- [Farm Food Safety Plan](https://gaps.cornell.edu/educational-materials/farm-food-safety-plan-template/)

- [Food Safety Checklist](https://gaps.cornell.edu/educational-materials/decision-trees/worker-health-hygiene-and-training/)


Standard Operating Procedures (SOPs) and Agritourism Safety Plans

- Famers Market Checklist
- Traffic & Parking Safety Checklist
- Handwashing & Restrooms Checklist
- HandWashingAndRestroomsChecklist.pdf (safeagritourism.org)
- Hand Washing Procedure
- Hand Washing Policy
- Daily Cleaning Record
- Child Supervision Policy
- Barriers and Fencing Checklist
- Communicating with Guests Checklist
- Topics Checklist
- Emergency Preparation and Planning Checklist
- Employee Safety Orientation Checklist
- Hayride Safety Checklist
- Large Animal Safety Checklist
- Machine Safety Checklist
- Petting Zoo Worksheet
- Play Area Checklist
- Walkways, Surfaces and Structures Checklist
- Water & Attractive Nuisances Checklist
- Corn Maze Safety Checklist
- Play Areas Checklist Swings & Slides
- Child Abduction Safety Procedure
- Missing Child (no threat) Safety Procedure
- EMERGENCY FIRST AID CHART
- Incident-Emergency Report
- Warning to Visitor Sign
- Visitor Responsibility Sign
- Right to a Refund
- Posted Warning
- Inherent Risk Sign
- Warning to Visitor Sign
- Visitor Responsibility Sign
- Sample Visitor Record
- Visitor Hygiene Policy
Emergency Plan

Address
Phone
Alternate Phone

DIRECTIONS TO FACILITY FROM FIRE/EMS LOCATION

OWNER/EMERGENCY CONTACT NAME
PHONE

<table>
<thead>
<tr>
<th>TYPE OF EMERGENCY</th>
<th>CODE NAME</th>
<th>MEETING LOCATION</th>
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<tbody>
<tr>
<td>Fire</td>
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<td>Severe Weather</td>
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<td>Missing Child-no threat</td>
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<td>Child Abduction</td>
<td>Amber Alert</td>
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<td>Lockdown-terror/weapon</td>
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FIRE EXTINGUISHER LOCATIONS

FIRST AID KIT LOCATIONS
Farm Worker Training Record Template

Date: ____________

Name of Farm: __________________________________________

Farm Address: __________________________________________

Name of Trainer: ________________________________________ Training time: ______

Topics Covered: _________________________________________

**Training materials:** Please attach any printed materials related to the training. Also, reference any relevant SOPs or sections of the farm food safety plan that apply.

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<th>Employee Name</th>
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Reviewer: ___________________ Title: __________ Date: __________

Confidential Record
# Farm Worker Training Record Template

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Reviewer: _________________________ Title: ______________________ Date: ________
References

Richard Stupp, Plan, conduct, and Evaluate Training. Cornell Agricultural Workforce Program https://cornell.app.box.com/s/pi3zvgcgrkfjivtn2u0vqkgti3epy9ue

Richard Stupp, Ph.D. Employee Onboarding: Safe, Productive, and Engaged from Day One! Onboarding Overview.

Richard Stupp, Plan, conduct, and Evaluate Training. Cornell Agricultural Workforce Program Cornell Agricultural Workforce Development https://agworkforce.cals.cornell.edu/onboarding/


Cornell Cooperative Extension, Seneca County Guidelines for Review of Local Laws Guidelines for Review of Local Laws (senecacounty.cce.org)

Farm Estate Planning | Farm Succession Planning | Open Advisors. https://www.myopenadvisors.com/farm-estate-planning


Chapter 901 - Ohio Revised Code | Ohio Laws. [https://codes.ohio.gov/orc/901](https://codes.ohio.gov/orc/901)


Agritourism and Insurance considerations for agritourism operators. Peggy Kirk Hall, Associate Professor Ohio State University Agricultural & Resource Law Program, Evin Bachelor Law Fellow Ohio State University Agricultural & Resource Law Program Factsheet Series: 2019 Agritourism-series-Insurance.pdf (nationalaglawcenter.org)


Insurance Information for Agritourism Operators, NATIONAL CHILDREN’S CENTER FOR RURAL AND AGRICULTURAL HEALTH AND SAFETY (2018) [https://safeagritourism.org/insurance/](https://safeagritourism.org/insurance/).


University of Minnesota FINPACK Farm Financial Scorecard (2002)
Iowa Center for Agricultural Safety and Health. Farm Fire Prevention Guide Fire-Safety-tri-fold-brochure-FINAL.pdf (uiowa.edu)

Iowa State University Extension and Outreach, Handle Chemicals with Care ICASH-Seasonal-Campaign-card-3.2.17.pdf (uiowa.edu)

www.safeagritourism.com/Resources. Adapted from resources provided by the North Carolina Agromedicine Institute, with funding provided by the National Institute for Occupational Safety and Health (NIOSH) Award 5U54OH009568-04 through a grant from the National Children’s Center for Rural and Agricultural Health and Safety (NCCRAHS)


The National Agricultural Law Center, Agritourism – An Overview Agritourism Overview - National Agricultural Law Center (nationalaglawcenter.org)

The National Agricultural Law Center, Agritourism Definitions by State WNR 102616 Item 15 Agritourism Definitions by State_pdf (nmlegis.gov)

University of Arkansas Division of Agriculture ohio.pdf (nationalaglawcenter.org)

The University of Vermont Extension Safety, Liability, and Regulations | Vermont Agritourism Collaborative | The University of Vermont (uvm.edu)

Dutchess County publication entitled "Blueprint: An In-Depth Look at Planning Issues -- Fielding Farm-Friendliness Through Planning and Zoning" (.pdf)

Dutchess County Planning Federation eNewsletter entitled “Municipal Toolkit for Implementing Farm-Friendliness in Your Zoning Code“ (.pdf)

Dutchess County Farm-Friendly Audit: Countywide Results Table (2019) (.pdf)

Dutchess County Agricultural & Farmland Protection Plan (2015) resources, including model language/ordinances (see under “Plan & Resources”)


NYS Department of Agriculture and Market, Farmland Protection and Agricultural Districts (ny.gov)
NYS Ulster County Planning Department Agricultural Districts Overview | Ulster County (ulstercountyny.gov)

Carla Tardi (2022), Accrued expense: What it is, with examples and pros and cons. https://www.investopedia.com/terms/a/accruedexpense.asp

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