

## Risk Management Skills Assessment

**1. Mark if you've done the following "a lot," "some," or "not much." Give yourself 1 point for each time you answer a lot, 2 points for each some, and 3 points for each not much.**

- Diversified production by raising both crops and livestock.
- Diversified production by raising a crop not widely grown in your area.
- Planted varieties with different maturity dates.
- Hired fieldwork done rather than purchase a piece of equipment.
- Hired fieldwork done to improve timeliness of crop operations.
- Used irrigation to reduce losses from drought.
- Contracted inputs ahead of when you needed them to lock in a good price or made sure you'd have access to them.
- Bought crop insurance.
- Maintained a larger open line of credit than you need just in case.
- Participated in the government farm program.
- Leased equipment rather than purchased it.
- Rented equipment rather than purchased it.
- Shared production expenses or work with landlord.

- Negotiated multi-year leases of farmland.
- Used crop share leases.
- Refinanced debt to take advantage of lower interest rates.

**2. Subtract one point for each of the following techniques you use.**

- Sensitivity analysis
- Accrual accounting
- Cash flow plan
- Accountant
- Computerized financial records
- Financial ratios
- Financial consultant or farm business association

**3. How many individual sales of your major crop will you make in a year?**

*Subtract the number of points indicated.*

| Points | Individual sales |
|--------|------------------|
| 1      | = One            |
| 2      | = Two to five    |
| 3      | = Six to 10      |
| 4      | = 11 to 15       |
| 5      | = More than 15   |

**4. What percentage of your crops are forward priced before harvest or before reaching market weight?**

*Subtract the number of points indicated for both crops and livestock, giving yourself two separate scores.*

- Crops
- Livestock

Points    % forward priced

- 1 = None
- 2 = 1% to 24%
- 3 = 25% to 49%
- 4 = 50% to 75%
- 5 = More than 75%

**5. If you raise livestock, what percent are raised or sold through a contract or marketing arrangement with a packer or other company?**

*Subtract the number of points indicated for both hogs and cattle, giving yourself two separate scores.*

- Hogs
- Cattle

Points    % using contract

- 1 = None
- 2 = 1% to 24%
- 3 = 25% to 49%
- 4 = 50% to 75%
- 5 = More than 75%

**6. Which of the following best describes your approach to planning?**

*Add the number of points indicated.*

| Points | Approach  |
|--------|---|
| 1      | = Have a detailed, written plan for the next five years |
| 2      | = Put a few ideas on paper, but nothing comprehensive   |
| 3      | = Have a general idea, but nothing in writing           |
| 4      | = Have not doing any planning that far into future      |

### TOTAL POINTS

#### SCORING SYSTEM

|            |      |
|------------|------|
| 35 or more | ★    |
| 25 to 34   | ★★   |
| 19 to 24   | ★★★  |
| 18 or less | ★★★★ |

## Financial Strength Quiz

**What letter grade (A, B, C, D, or F) would you give to judge the financial strength of your farm?**

*Put the number of points indicated below, 'A' being the best.*

A = 5    B = 4    C = 3    D = 2    F = 1

**How likely is it that your farm could survive a year of bad yields or bad prices — "very likely," "somewhat likely," or "very unlikely?"**

*Put -1 point if you answered "very unlikely." Otherwise put zero.*

**How much would the following affect your farm? Answer "a lot," "some," or "not much."**

- a 3 percentage point rise in interest rates
- a 5% drop in revenues
- a 5% increase in expenses

*Put -1 point for each time you answer "a lot." Otherwise put zero.*

**Do you worry about whether you'll be able to pay back the debt you own?**

*If yes, put -1 point. Otherwise put zero.*

**Do you always pay off the balance on your credit cards on time to avoid paying a finance charge on the outstanding balance?**

*If no, put minus -1. Otherwise put zero.*

**Compared to other farms, is your farm successful?**

*If no, put minus -1 point. Otherwise put zero.*

**Over the next five years, do you expect your earnings to increase?**

*If no, put minus -1 point. Otherwise put zero.*

**What were your farm's total profits after expenses last year?**

*Put the number of points indicated below.*

- 1 = Lost money
- 2 = Less than \$10,000
- 3 = \$10,000 to \$24,999
- 4 = \$25,000 to \$49,999
- 5 = \$50,000 to \$99,999
- 6 = \$100,000 or more

**What is your farm's debt-to-asset ratio? That is, your total debt divided by your total assets? \_\_\_%**

*Subtract the number of points indicated below.*

- 1 = Zero (no debt)
- 2 = 1 to 10%
- 3 = 11 to 40%
- 4 = 40 to 60%
- 5 = More than 60%

#### SCORING SYSTEM

|               |      |
|---------------|------|
| Zero or less  | ★    |
| One to three  | ★★   |
| Four to six   | ★★★  |
| Seven or more | ★★★★ |