

# **A PRIMER for Selecting New Enterprises for Your Farm:**

## **RISK 1: Production and Financial Risk**

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# Risk

*Use this worksheet to anticipate what can go wrong and what can be done about it.*

## PRODUCTION RISKS

Is this enterprise sensitive to changes or extremes in weather conditions? If so, how?

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Local climate conditions you should know for your location:														
Spring							Fall							
50% Frost probability rate	_____							_____						
10% Frost probability rate	_____							_____						
Average annual rainfall	_____							_____						
Average monthly rainfall	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC		

Describe your strategy for prolonged drought.

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What are your major weed, insect, or disease problems?

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What cultural, mechanical, or chemical control practices are available?

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Will you need to use pesticides?       YES       NO

Do you have a current pesticide certification card?       YES       NO

Will the success of the enterprise be jeopardized if a particular machine breaks down at a key time?       YES       NO

Do you have backup equipment?       YES       NO

Is this enterprise dependent on the availability of reliable labor?       YES       NO

## FINANCIAL RISKS

How much capital will be borrowed?

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What are the terms of the loan?

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Length? \_\_\_\_\_

Interest Rate? \_\_\_\_\_

Periodic payment? \_\_\_\_\_

How long will it take for profits from this enterprise to pay back the initial investment cost? \_\_\_\_\_

Financial measures you should know for your business:

Liquidity ratio \_\_\_\_\_

Debt/Asset ratio \_\_\_\_\_

Return on Assets \_\_\_\_\_

Net farm income \_\_\_\_\_

Repayment capacity \_\_\_\_\_

Are other enterprises or off-farm income available to offset negative cash flows due to crop failure or low prices?       YES       NO