Understanding your farm's financial risk

Weather, pests, and market instability have taught farmers that each year, crop, and market carry a certain amount of risk. Considering your financial needs and options to mitigate farm risks helps you continue farming through the unexpected. Options include diversifying product raised or sales channels, as well as some level of crop insurance. Any option by itself or coupled with others will increase your farm business's ability to survive future challenges. The questions below help you examine how much risk you can handle and what options you have.

How much of your household income is from farming?

When considering the level of financial risk associated with the farm, consider your personal risk. How much income do you need to support your household? How much of that will come from the farm?

Does your monthly cash flow create a risk for your farm?

Look back at your previous year(s) to understand how money moves through your business. For example, you may have spent far more in February and March with few sales and then had fewer expenses with more sales in July and August. Use your farm's financial history to begin estimating cash flow by month on Table 3, starting January 1st.

You can use strategies such as having a line of credit available or being able to invest some reserved business or personal money into the farm during those lean times but be aware that the farm needs to be treated as a business that can pay its debts. Other options, if possible, are to delay certain expenses or expand into a different crop or market that would provide cash flow during the lean time.

What is the minimum income the farm needs to have?

Your farm is a business, and you should expect that it will pay all of its expenses, begin next year's operation, and provide income to your household. Consider your goal for farm income and determine the minimum income you need the farm to have. To calculate this, you must know how much net profit you need from the farm for the following, both an expected amount and a minimum amount necessary.

- Supporting your household
- Beginning your farming operation next year;
- Expanding your operation (purchasing equipment, pursuing new markets, or building infrastructure)

Table 1: Income needed		
Income used to…	**Expected**	**Minimum**
Support household		
Start farming operations in the next year		
Expand farm or upgrade equipment or buildings		
Total (Add up all three lines above)	$ 0.00	$ 0.00

How much do you rely on each product you sell?

In order to understand your risk, consider the crops, livestock, or other farm products you sell. Consider how the loss of any single income stream, such as a losing a pumpkin harvest or a drop in the cattle market would affect your farm business. Use the following table to estimate your reliance on and sales from each product you raise.

Table 2: Income by crop

Product	Amount Raised	Expected harvest per unit	Price per unit	Expected Income	Percentage of total farm sales (Expected Income ÷ Total Farm Income
Example: Pumpkins	*4 acres*	*64,000 pounds*	*$0.14*	*$8,960*	
					0.00%
					0.00%
					0.00%
					0.00%
					0.00%
Grand total				$ 0.00	*100%*

Do you need crop insurance or another safety net?

Whether or not you need crop insurance and what type of insurance you need is dependent on the following:

- Your household's reliance on farm income;
- Your ability to cover a monetary shortfall to cover the next season's start-up costs;
- Your product type and farm diversity; and
- Your lender's coverage level requirements.

Depending on where you live, you may be able to purchase crop insurance on each crop based on your production history. Crops traditionally grown in your area will have Multi-Peril Crop Insurance policy that can cover losses due to weather or market issues causing a reduction in price.

- Use this link to check coverage in your county, including the county average yield and price for the crop. https://webapp.rma.usda.gov/apps/actuarialinformationbrowser2019/CropCriteria.aspx.
- To discuss your options with an agent, use the agent locator tool provided by the Risk Management Agency, found at https://prodwebnlb.rma.usda.gov/apps/AgentLocator/#/.

If your product isn't listed for your county, there are options. Whole Farm Revenue Protection considers your farm revenue as a whole and is not dependent on single crops. This often works well for diversified, smaller farms, and ranges in coverage from beef to sweet corn to soybeans. The Non-Insured Disaster Assistance Program (NAP) covers crops based on market prices for a relatively small fee to cover otherwise uninsurable single crops.

Detailed Cash Flow Statement

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Beginning Balance												
Sources of Funds												
Sales												
Owner Investment												
Line of credit												
Total Source of Funds	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00

Uses of Funds												
Costs of Goods												
Operating expenses												
Loan Payments												
Capital Improvements												
Total Use of Funds												
Ending Balance												