

Farm Management Proficiency Test

This test is designed to highlight the key proficiencies considered essential to successfully manage a family farm business. Farmers, teachers, advisers, and bankers can use this test to assess strengths and weaknesses, develop curriculum and implement training and self-improvement programs.

(Note: This test does not address basic production management proficiencies.)

Key Proficiency Areas: (Place an "X" in the column that applies.)	In Place Now	Working On It	Need It	Don't Need It
<i>Management System/Personnel Administration</i>				
1. Mission, Vision and Core Values are defined for the business.				
2. Farm History is documented (incl. narrative & financial trends).				
3. Goals and Objectives (Long and Short Range) are defined.				
4. Operating Plan addresses Production, Marketing, Financing, and Capital Purchases/Sales Plan and is compiled into an annual Cashflow Budget Projection .				
5. Strategic Plan identifies "Strategic Issues"* for the business, and, at least annually, updates strategies and action plans for achieving strategic goals. (* Estate planning/succession, business structuring, expansion, diversification, in-sourcing vs. outsourcing activities, value added, equipment and facility replacement, enterprise mix, financial capitalization, stewardship, strategic alliances, tillage strategies)				
6. Responsibility is clearly divided and each partner and employee has a job description outlining duties, responsibilities & authorities.				
7. Personnel policies* are written and communicated to employees and spouses (* Including: housing, meals on premises & utilities; medical/life/disability insurance; buyouts; inter-entity transactions; vehicle fuel, insurance and maintenance, retirement plans, vacation and sick leave, setting compensation, business expense reimbursement, etc.)				
8. Standard Operating Procedures are documented for repetitive or routine tasks.				
9. Compensation Program matches compensation to market rates and differentiates pay based on skill, tenure and responsibility levels (for owner/managers & employees.)				
10. Performance Appraisals and Employee Development Plans are done regularly for operating partners and employees.				
11. Performance records (operating and financial) are circulated to key managers and owners on a regular (monthly minimum) basis.				
12. Regular meetings (board, management, staff) held daily, weekly or seasonally to address communication needs of workers, investor/owners and spouses.				
13. Technical expertise and tools* allow efficient access to management information. (*Computers, internet, business publications)				
14. Critical agreements* and understandings are documented and reviewed periodically. (*Strategic plans, farm operating policies, partnership agreements, buyout agreements, estate plans & wills, lease/rental arrangements)				

Appendix 1.1

Key Proficiency Areas: (Place an "X" in the column that applies.)	In Place Now	Working On It	Not Done - Need It	Don't Need It
Financial Management Proficiencies				
1. Records are updated and circulated on a monthly or quarterly basis to appropriate employees and owners.				
2. Balance sheets and income statements are prepared at least annually on a calendar/tax year basis.				
3. Balance sheets reflect cost and market valuations, including deferred tax liabilities.				
4. Income statements meet requirements to prepare taxes and measure true farm profitability on an accrual basis .				
5. Audit systems assure balance sheets and income statements reconcile to inventories and bank/loan balances; depreciation schedules reconcile to balance sheet values.				
6. Enterprise Profitability and Cost Center Tracking can efficiently be derived from farm records.				
7. Cashflow budgets are prepared at the beginning of the year and comparisons of actual cashflow to projections are made at least monthly or quarterly.				
8. Field and livestock herd records for production inputs, applications, and resource use (i.e. chemical, fertilizer, seed, pasture grazing utilization) are complete and accessible.				
9. Key performance measures and ratios (i.e. FFSC "Sweet 16" or Ferguson Ratios) are calculated for all critical production, marketing, financial and capital performance areas and compared annually to historical trends.				
10. Policies for investment and withdrawal of capital, including minimum capital levels and revenue sharing arrangements are defined, clearly understood and followed.				
11. Policy for dividing earnings due to <i>owners</i> vs. <i>management</i> is defined and consistently followed.				
12. Financial tools and expertise for optimizing <i>capital acquisition decisions</i> are accessible and used regularly (purchase, leasing, or custom hiring on major capital outlays.)				
13. Partial Budget Techniques are understood and utilized when evaluating partial shifts* in the business (enterprise selection, tillage systems, lease vs. purchase or hire, etc.				
Marketing and Risk Management Proficiencies				
1. Products to be marketed (quantity and types) are projected well in advance of production.				
2. Market targets are based on identifiable cost of production, profit targets, and cashflow requirements.				
3. Forward contracts, hedging, and options are understood and utilized <i>as marketing</i> and risk management tools.				
4. Crop insurance programs are implemented that provide balanced protection from hail, fire and multi-peril causes.				
5. Liability insurance programs adequately protect operation's owners and employees from financial liability, health, disability other business risk threats.				