

DEFINITIONS

The following information outlines some of the terms used in this Analysis Report. The "Average Net Farm Income" output shown in this report can be used as a guide. The analysis, in addition, is computed on a "per farm" and "per count" basis, where:

Per Farm - Represents the overall average based on the number of farms in this category.

Per Count - Represents the average based on the number of farms which had that particular income, expense, or item. The number of farms is shown in parenthesis.

Accrual Income

The various kinds of livestock, crop and gross farm income values are computed by the inventory or accrual method. For example, beef income is computed as follows:

Total 2002 beef sales	\$109,740
January 1, 2003 beef inventory	\$ 75,250
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TOTAL #1	\$184,990
Total 2002 beef purchases	\$ 73,274
January 1, 2002 beef inventory	\$ 65,450
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TOTAL #2	\$138,724
Beef Income (TOTAL #1 - TOTAL #2)	\$ 46,266

The \$46,266 represents the amount of beef income reported for the "Average Net Farm Income" output. Income for other livestock and crop projects, and gross farm income are computed in the same manner.

Net Farm Income (Line 45)

Return to operator's labor, management, and net worth computed on an accrual basis. (partnerships are counted as one farm.)

Current-Intermediate Asset Charge 10% (Line 47)

Represents a 10 percent interest charge, or opportunity cost, on net current and intermediate assets. (Net current and intermediate assets equal current plus intermediate assets less current loans less intermediate loans.)

Long-Term Asset Charge 10% (Line 48)

Represents a 10 percent interest charge, or opportunity cost, on net long-term assets. (Net long-term assets equal value of owned land plus value of buildings plus long-term accounts receivable less long-term loans.)

Return to Labor and Management (Line 51)

Equals Net Farm Income less a charge for the following items: a) 10 percent of the operator's overall net worth, and b) the estimated value of unpaid farm labor of family members other than the farm operator. Provides a measure of the operator's own earnings for his labor and management after giving credit for his net worth.

Return to Capital (Line 53)

Equals Net Farm Income (+) Interest Paid (-) \$15,000 labor charge for the operator (-) estimated value of unpaid family labor (-) a management charge (10 percent of Gross Farm Income). Provides a measure of the operators return to capital after assigning a value for his labor and management.

Capital Managed (Line 59)

Total assets (current + intermediate + long-term assets) plus value of rented land. Represents the total value of capital used in the farm operation.

Percent Return On Capital Managed (Line 54)

Equals Return to Capital divided by Total Capital Managed. Represents the rate of return on the total capital.

Percent Return On Net Worth

Equals Return to Capital (-) Interest Paid divided by the operator's Net Worth in the farm operation.

Current Assets

Total value of livestock, supplies, crops, feeds, and current accounts receivable.

Intermediate Assets

Remaining value of machinery and motor vehicles on the depreciation schedule, and intermediate accounts receivable.

Long-Term Assets

Total value of owned land buildings, and long-term accounts receivable.

Production Man Work Units (Line 60)

Represents a measure of how efficient you are in getting your work done, and not a measure of how hard you work. This measure utilizes established work unit standards for crop and livestock enterprises.

Crop Machinery Cost (Line 82)

Crop share of repairs, fuel, machine hire, machinery and motor vehicle depreciation, farm share of auto, and 10 percent interest charge on machinery investment less off-the-farm custom work.

Gross Crop Value

Value of total crop production (includes landlord's share of production), including government payments and insurance proceeds. This value is a productivity measure for the crop portion of the farm business.

Crop Production Costs

All direct production cost of the farm operator used in producing crops. This value does not include production expenses paid by the landlord on leased land, interest charge on land, interest payments, cash farm rent, or a charge for the operator's labor. (Crop Production Costs can not be subtracted from the Gross Crop Value to derive a net income to crops because the landlord's production expenses on leased land are not included.)

ENTERPRISE DEFINITIONS:**Crop Enterprises:**

***Total Other Income:** Summation of: Landlord Refunds, Patronage, Government Payments, Gas Tax Refunds, Crop Insurance Proceeds, and Misc. Income. The values per unit & acre do not add to this total, but are displayed for demonstrating the per unit value of these items.

****Interest Charge Equals:** $((8\% \text{ times } 3/4 \text{ of Variable Cost}) + (4\% \text{ times Depreciation times } 8))$ minus Cash Interest Paid. Represents average of interest charge computed for each farm.

*****Land charge represents:** A charge (equal to landlord's share) on owned land and equals: (production from owned acres X price / unit X 33.33%). Crop production paid to the landlord on rented land, or cash rent, is the charge on rented land.

Livestock Enterprise:

***Interest charge equals:** $((8\% \text{ times } 1/4 \text{ gross purchases}) \text{ plus } (8\% \text{ times } 1/4 \text{ the Variable Cost}) \text{ plus } (4\% \text{ times Depreciation times } 8) \text{ minus Cash Interest Paid.}$