

NORTHWEST FARM CREDIT SERVICES

BUSINESS TOOLS

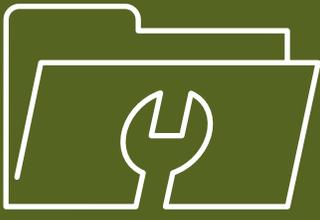
Understanding Key Financial Ratios and Benchmarks

Tip: Ratios and benchmarks help producers set goals, make decisions, and compare business performance to similar operations.

How does my business stack up compared to my neighbors? This question is becoming more and more common as the agricultural industry continues to change and evolve. The exciting opportunities arising in agriculture are not without challenges that will separate the leaders and the followers in the industry. The changing and expanding domestic and export markets will place greater importance on decisions made in finance, marketing, and management. The use of financial ratios and benchmarks will provide agricultural businesses with a means of evaluating performance and success.

Who uses financial ratios and benchmark data, and why?

Financial ratios and benchmarks are useful for persons both inside and outside a business. Management can use the information to assist in decision-making and goal setting and to compare their business performance to that of similar operations. Lenders and other creditors can use the same information to evaluate credit risk.



Tip: Ratio guidelines for general agriculture, retail, wholesale, service, and manufacturing firms are available through sources such as the Risk Management Association.

Calculating financial ratios at regular intervals helps all involved to measure progress over time. Ratios can help identify symptoms of underlying problems in a business and help management focus its attention where it is most needed. Objective measures also decrease the likelihood decisions will be made solely on an intuitive or emotional basis.

Where can you obtain benchmark data?

Financial ratios are of little use without benchmarks to compare them against. Benchmarks are guidelines or general rules of thumb related to a specific industry or business segment. As benchmarking and ratio analysis continue to grow in popularity, the availability of such data will also improve. Various public and private organizations collect and analyze financial data on the agricultural industry as a whole and on specific sectors. Often this information is available to the general public. Ratio guidelines for general agriculture, retail, wholesale, service, and manufacturing firms are available through sources such as the Risk Management Association. Support institutions, such as agricultural lenders, often provide this information at little or no cost.

Why have financial ratios and benchmarks become popular in agriculture?

Three factors have contributed to the

increased use of financial ratios and benchmarks in agriculture. First, the Farm Financial Standards Council established universally-recognized measures of financial performance. This enables a wheat producer in Washington to be analyzed using the same ratios as a cotton farmer in Virginia, although the interpretation may be slightly different. This consistency marked a substantial step in the evolution of financial ratio analysis in agriculture. Second, producers are maintaining better records, thus improving the accuracy and reliability of available data. Third, lenders are requiring better information to evaluate credit quality and improve their understanding of their customers' operations.

The Farm Financial Standards Council identified the following five critical areas for analyzing financial performance:

- Repayment ability or capacity
- Liquidity
- Solvency and collateral
- Profitability
- Financial efficiency

Within these five areas, the council identified key ratios for evaluation. In the table on page 12, the calculations for each ratio are detailed and the correlating benchmarks are presented in terms of green, yellow and red lights. A green light represents low risk, a yellow light corresponds to moderate risk,

Tip: A business showing a declining trend should take immediate measures.

and a red light means high risk. A green light doesn't guarantee success, nor does a red light imply failure. A weakness in one area may be overcome by strengths in other areas. Variations may occur between industries.

While the ratios are very interrelated, there are subtleties to interpretation that must be considered. Some ratios are measured at a single point in time, which varies depending upon the particular point in the production cycle. Others encompass a certain time period or an entire operating cycle. As such, trends become important in understanding the relative progress of an operation.

Repayment Analysis

Repayment capacity is the ability of a business to support a living, meet all expenses and debt payments, replace depreciating capital assets, and prepare for the future through business investments and retirement plans.

Term debt and lease coverage ratio

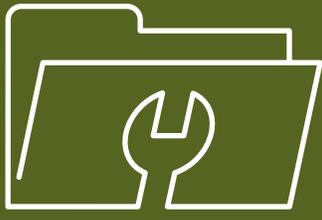
Repayment analysis is comparing capacity to requirement. Or, comparing earnings available to meet debt obligations to the total of annual debt payments and capital investments. A benchmark used to examine repayment ability is the term debt and lease coverage ratio. Exhibit 1 shows the data needed and procedure used to calculate the ratio. Experience indicates the greater the net earnings to cover debt payments, the easier an operation can handle unforeseen expenses, lowering the risk. Thus, a ratio greater than 150 percent is a low risk, or green

EXHIBIT 1 REPAYMENT ANALYSIS

1. Net Farm Income From Operations	\$	43,750
2. Plus: Non-Farm Earnings	+	36,500
3. Subtotal	=	80,250
4. Plus: Depreciation Expense and Interest Paid on Term Debt and Capital Leases	+	59,000
5. Earnings Available for Family Living, Income Taxes, Interest and Principal, Payments and New Investments	=	139,250
6. Minus: Family Living Withdrawals and Income Taxes	-	58,000
7. Capacity Available for Interest, Principal Payments and New Investments	=	81,250
8. Scheduled Interest and Principal Payments on Term Debt and Capital Leases	\$	60,700
9. Term Debt and Lease Coverage Ratio (Line 7 / Line 8)	=	134%
10. Capital Replacement and Term Debt Repayment Margin (Line 7 - Line 8)	=	20,550
11. Debt Payment / Income Ratio (Line 8 / Line 7)	=	44%

light. A ratio between 110 percent and 150 percent is acceptable, but riskier, and is a yellow light. A ratio less than 110 percent is a high risk and a red light. A business with a ratio in the red zone or showing a declining trend should take immediate measures to remedy the situation.

To protect against adversity, or to provide for unexpected opportunities, an operation needs a margin to cover debt payments.



Tip: Many producers are guilty of trying to repay debt too quickly.

The relative level required may change depending on the needs of the business. A business that is expanding or making major capital adjustments should have a minimum coverage ratio of 150 percent. This accounts for cost overruns or problems in production or marketing. On the other hand, an operation with a smaller repayment margin is acceptable if loans are structured with fixed rates or non-farm employment, living expenses and income tax payments are steady, and the operation is stable. However, the lower the coverage ratio, the more important risk management tools become, such as crop and property insurances, liquidity, hedging, options, or contracted production.

Capital replacement and term debt repayment margin

Another measure derived during repayment analysis is the capital replacement and term debt repayment margin found on the previous page (Exhibit 1, line 10). This is the difference between capacity and payments. This margin is useful for analyzing several factors. For instance, the significance of non-farm income can be measured by comparing the level of non-farm revenue to the margin. If the margin approaches zero or is negative when net farm income is deducted, this indicates a heavy reliance on outside sources of repayment. The margin should also be compared to annual depreciation expense. If depreciation is greater than the margin, it may indicate insufficient capacity to replace capital assets such as machinery and equipment. Conversely, a small amount of

depreciation and a large margin may indicate deferred maintenance on the machinery line. Finally, the amount of government payments can be compared to the margin to assess the dependence on support payments.

Debt payment/income ratio

A second ratio measuring repayment capacity is the debt payment/income ratio, which measures the ability of a business to service debt over the term of a loan. This is calculated by dividing total debt payments by the adjusted farm and non-farm income figure (Exhibit 1, line 11). Since a heavier debt burden reduces an operation's flexibility and increases risk, a ratio of less than 25 percent would be a green light, a ratio of 25 percent to 50 percent would be a yellow light, and anything over 50 percent would be considered high risk or a red light.

Strategies to improve repayment capacity ratios are:

- Increase net farm income through:
 - Improved quality, price, or amount of production
 - More effective marketing
 - Sale of capital assets (short-run strategy)
- Reduce operating expenses
- Increase off-farm earnings
- Closely monitor family living withdrawals and reduce if necessary
- Restructure debt

Liquidity Analysis

Liquidity is defined as the availability of cash and near-cash assets to cover short-term obligations without disrupting normal business operations.

Tip: As inventories rise or as volatility increases, working capital should also increase to offset those risks.

Current ratio

The most common measure of liquidity is the current ratio, which is calculated by dividing current assets by current liabilities (Exhibit 2). Generally, a ratio greater than 1.50 is considered a green light, between 1.00 and 1.50 a yellow light, and less than 1.00 a red light. However, several factors, including the type of operation, can impact the current ratio. For instance, dairy producers and similar operations carrying low inventories and having stable monthly incomes can manage with a lower ratio. However, operations with high inventories and accounts receivable require a higher ratio. Since this ratio is measured at a single point in time, the ratio will vary depending upon the point in the production cycle. Other factors impacting the current ratio include loan repayment terms, credit card usage, and accounts payable.

Businesses attempting to improve the current ratio should start by analyzing loan structure. Many agricultural producers are guilty of trying to repay debt too quickly. This increases current obligations and hinders repayment ability. A second strategy is to evaluate the marketing plan to better time cash inflows and outflows.

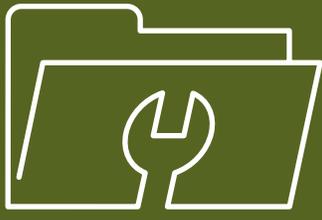
EXHIBIT 2 LIQUIDITY ANALYSIS

Current Assets	\$111,200
Current Liabilities	÷ \$62,240
Current Ratio	1.79
Current Assets	\$111,200
Current Liabilities	- \$62,240
Working Capital	\$48,960
Working Capital	\$48,960
Total Expenses	÷ \$236,250
Working Capital Rule	21%

Working capital

A second common measure of liquidity is working capital, which is simply the difference between current assets and current liabilities (Exhibit 2). Working capital is the owner's share of the production assets. Because this is an absolute measure rather than a ratio, no one level of working capital is preferred. However, as working capital increases, the flexibility a business has in marketing, acquiring capital assets, and timing cash flows also increases. Interest costs decrease. All these things reduce the relative risk in the operation. The appropriate level of working capital for a particular business will vary with average levels of inventories and accounts receivable and with production or marketing volatility. As inventories rise or as volatility increases, working capital should also increase to offset those risks.

A third measure of liquidity, which is sometimes used, is the Working Capital Rule



Tip: The number one reason businesses fail is too much financial leverage.

that expresses working capital as a percent of business expenses (Exhibit 2, page 5). This ratio allows an operation to compare the adequacy of its working capital to others. A benchmark to strive for is to have working capital equivalent to at least 20 percent of total annual operating expenses. Again, this figure should be adjusted upward to offset large inventories and volatility risks.

In many agricultural businesses, the family is an integral part of the operation, and business and personal liquidity must both be examined. Financial analysts like to see a business or the owners maintain two to six months of family living expenses in cash or near-cash assets. This serves as a safety net in the event of a business hardship, disability of the operator, or other misfortune. A lack of adequate cash for family living can spill over into business disputes, and ultimately cause financial problems.

To increase an operation's liquidity, a business can:

- Structure debts to carefully balance operating needs and long-term debt reduction
- Develop and follow marketing plans to:
 - Match timing of cash flows
 - Increase operating profits
- Reduce production costs
- Sell assets

Solvency Analysis

Solvency addresses the relationship between assets and obligations, including the respective investment levels of both owners and creditors.

Three ratios are commonly used to measure solvency. While all three ratios provide the same basic information on the leverage position of the business, they show the information from different perspectives.

Debt-to-asset ratio

The debt-to-asset ratio is calculated by dividing total liabilities by total assets (Exhibit 3, page 7). It measures the level of debt held by outside sources. Increasing debt levels translate into higher risk as the operation loses flexibility and more stress is placed on earnings to service debt. A ratio of less than 30 percent is considered a green light, 30 percent to 55 percent a yellow light, and greater than 55 percent a red light. As the debt-to-asset ratio increases, management flexibility decreases and earnings are more stressed to service debt. Also, the chance of insolvency (liabilities exceeding assets) is greater when deferred federal and state taxes are incurred in the case of a business liquidation.

Equity-to-asset ratio

The equity-to-asset ratio, which is calculated by dividing total equity by total assets, measures the owner's investment level in the business. This ratio is the reverse of the debt-

Tip: Inadequate profits may result in repayment, liquidity, and solvency problems.

EXHIBIT 3 SOLVENCY ANALYSIS

Total Liabilities	\$426,900
Total Assets	÷ \$965,100
Debt-to-Asset Ratio	44%
Total Equity	\$538,200
Total Assets	÷ \$965,100
Equity-to-Asset Ratio	56%
Total Liabilities	\$426,900
Total Equity	÷ \$538,200
Debt-to-Equity Ratio	79%

to-asset ratio. If the debt ratio is 40 percent, then the equity-to-asset ratio is 60 percent.

Debt-to-equity ratio

The debt-to-equity ratio is calculated by dividing total liabilities by total equity. It simply compares the owners' and creditors' percentages of ownership in the operation.

Other factors, such as management skill and debt structure, impact how ratios should be interpreted. The reasons for equity growth should also be examined. For example, growth through earnings is looked upon more favorably than growth from inflation or inheritance. Growth generated from the profits should be identified to accurately gauge the real progress of a business and its future potential. The type of operation in question is also an important determinant. Enterprises such as feedlots, landscape nurseries, vegetable growers, and leased

operations have a much higher level of debt. An ideal benchmark would be one specific to your segment of the industry.

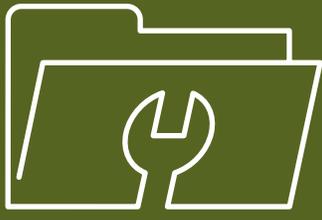
Strategies to increase equity and reduce leverage include:

- Increase operating profits through a combination of:
 - Increasing prices, quality, volume, or added value to production
 - Improving production efficiencies
- Make additional principal payments, where prudent
- Avoid unnecessary capital expenditures
- Control family living withdrawals from the operation

Profitability Analysis

Profitability compares business revenues against all economic costs and evaluates how productively a business is utilizing its resources, both capital and human.

Profitability is one of the most important, yet underemphasized measures of financial performance. Although a business can operate in the short run on break-even or negative returns, profits are necessary in the long run to support the family, build equity, service debt, and ultimately sustain the business. If not remedied, inadequate profits may result in repayment, liquidity, and solvency problems in the operation, sometimes as long as two to five years down the road. In terms



Tip: One who has cash can purchase assets at 50 cents on the dollar in down times.

of profitability, agriculture is seeing a bimodal situation developing. One group of producers is seeing very high profits, while the others are seeing minimal or negative profits. The middle group is shrinking.

To be meaningful, profitability analysis requires true earnings information. In agriculture, operations can maintain and report cash basis accounting records, but this leaves many owners knowing more about how much tax was paid in a period than what actual progress their operations made. To get an accurate picture, accrual income information should be used to analyze profitability. Trends in net farm income are useful to observe. Steady or increasing profit levels are desirable, while erratic profits are a sign of instability.

Operating profit margin ratio

Since profitability is the key to lasting success, ag businesses should be more concerned with profit margins than they are with managing income tax liability. A good way to measure profitability is the operating profit margin ratio, which relates profits realized to income generated. This ratio is calculated by dividing net farm income, adjusted for interest and operator management fee, by gross revenue. As profits rise, repayment capacity, liquidity, and solvency also improve, so a ratio of 25 percent or greater is a green light, 10 percent to 25 percent is a yellow light, and less than 10 percent is a red light.

EXHIBIT 4 PROFITABILITY ANALYSIS

1. Net Farm Income From Operations	\$	43,750
2. Plus: Farm Interest	+	31,000
3. Subtotal	=	74,750
4. Minus: Operator Management Fee	-	26,500
5. Subtotal	=	48,250
6. Total Farm Assets	\$	965,100
7. Rate of Return on Assets (Line 5 / Line 6)		5.00%

Return on asset

From an analysis standpoint, it's useful to compare profits to the business resources used to generate them. The most common ratio used to accomplish this is the return on assets (ROA) measure. This ratio, which indicates how well capital and human assets are producing profits, is calculated by dividing net farm income from operations, adjusted for interest and family living expenses, by average total farm assets (see Exhibit 4). The management fee is a charge for the value of the operator and unpaid family labor and management.

Benchmarks for operations with mostly owned assets show ROA ratios of greater than 5 percent to be very good, or a green light, ratios from 1 percent to 5 percent as average, or a yellow light, and ratios less than 1 percent are very weak, or a red light. Businesses that mostly rent production assets require higher ROA ratios in each category to remain competitive.

Return on equity

The rate of return on equity ratio (ROE) measures how well the owner's investment in the business is generating net income. Because owner equity levels vary widely, no guidelines are given for benchmarking.

Tip: Regardless of size, decreasing margins increases relative risk.

Monitoring trends is helpful in determining progress, but the only way to evaluate the adequacy of returns on equity is to compare the ROE ratios calculated with the rates of return for non-farm investments of comparable risk. Each manager must decide whether the individual operation's ROE is adequate with respect to other comparable investments.

Strategies used to increase profitability:

- Aggressively monitor and increase efficiencies of production costs
- Reduce unproductive capital or human assets
- Reduce costs (especially on the five largest expenses)
- Improve revenue through increased volume or quality of production
- Better manage interest rate risk and interest costs
- Reduce management draws
- Improve working capital to take advantage of cash discounts from suppliers

Financial Efficiency Analysis

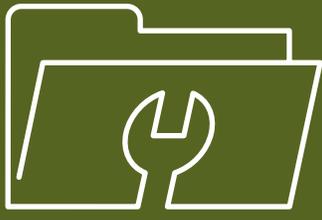
Financial efficiency measures how efficiently a business uses its productive capabilities.

Operating expense/revenue ratio

The key ratio used to measure financial efficiency is the operating expense/revenue ratio. This ratio answers the question, "How much does it cost this operation to generate \$1.00 of revenue?" The ratio is calculated by dividing total operating expenses (excluding total interest costs and depreciation) by gross revenue (see Exhibit 5). A very efficient operation would have a ratio of less than 65 percent for a green light. An average operation would have a ratio of

EXHIBIT 5 FINANCIAL EFFICIENCY

Total Operating Expense (Excluding Interest and Depreciation)	\$177,250
Gross Revenues	÷ \$280,000
Operating Expense/Revenue Ratio	63%
Interest Expense	\$31,000
Gross Revenues	÷ \$280,000
Interest Expense Ratio	11%
Depreciation Expense	\$28,000
Gross Revenues	÷ \$280,000
Depreciation Expense Ratios	10%
Gross Revenue	\$280,000
Average Assets	÷ \$976,225
Asset Turnover Ratio	29%
Net Farm Income from Operations	\$43,750
Gross Revenues	÷ \$280,000
Net Farm Income from Operations Ratio	16%



Tip: The good manager generates \$1 of revenue 10 cents cheaper than their competitor.

65 percent to 80 percent for a yellow light and less efficient operations would have a ratio above 80 percent for a red light. A higher ratio is acceptable if a large portion of the operation is rented or leased, as lease payments are a trade-off for principal and interest payments. Small or part-time agricultural producers may also have higher ratios, but this increases the dependence on non-farm revenue.

Very large operations, nurseries, and feedlots typically can survive with higher ratios because they operate on large volume and small margins. However, this requires additional stability in production and/or marketing. Regardless of size, decreasing margins increase relative risk. Operations with a high operating expense/revenue ratio should focus on reducing the five largest expenses (usually cropping, feed, labor, interest, and repair costs), keep family living withdrawals to a minimum, and properly structure debt.

Interest expense ratio

The interest expense ratio measures the percentage cost of debt in the operation. It is calculated by dividing interest expense by gross revenue (see Exhibit 5, page 9). Experience shows ratios under 12 percent to be very good or a green light, ratios from 12 to 20 percent to be less desirable but acceptable, or a yellow light, and ratios above 20 percent to be detrimental to the overall health of an operation, or a red light.

Depreciation expense ratio

The depreciation expense ratio measures the percentage cost of depreciable capital assets, or machinery and equipment. This ratio is calculated by dividing depreciation expense by gross revenue (see Exhibit 5). No benchmarks are suggested for this ratio given the many levels of equipment necessary to operate different types of businesses.

Asset turnover ratio

The asset turnover ratio relates the profit margin to the asset base. This ratio is figured by dividing gross revenue by average total farm assets (see Exhibit 5). High volume and low per-item margin businesses increase profits by increasing the through put when prices remain constant.

Net farm income from operations ratio

The net farm income from operations ratio measures a farm's profit margin. This is the fraction of the dollar left after deducting the percentage of expenses, interest, and depreciation. This ratio is calculated by dividing net income from operations by gross revenue (see Exhibit 5). No benchmarks are suggested for this ratio, but as profits are the main item which drives not only expansion and growth but also survival, the higher this ratio can be driven, the better.

Strategies to increase financial efficiency:

- Aggressively monitoring and reducing production costs where prudent

- Increasing the quality, amount and value of production
- Improving marketing practices
- Keep family living withdrawals to a minimum
- Properly structuring debt

Tip: If you have questions regarding this information or would like assistance calculating your ratios, please contact a Northwest Farm Credit Services representative.

The importance of trend analysis

While a particular ratio can provide insight into financial performance, trends in the ratios are even more useful. A trend is a direction or tendency a ratio exhibits for two or more years. Positive or negative trends for three to five years are considered significant. A lack of trends, or erratic financial performance, should also be watched, especially in repayment and profitability analyses. This “pogostick syndrome” is a sign of instability due to management problems, a poor marketing program, or other factors. When making financial projections, be conservative to avoid overestimates. Projections of ratio improvement of more than 5 percent should be carefully scrutinized, as cost savings, price increases, and other variables are often overestimated.

Interrelationships among the ratios and benchmarks

The financial ratios and benchmarks presented in this publication are interrelated and should be considered together. A conclusion should not be reached based on one ratio. For example, high leverage can be maintained if combined with good liquidity

and repayment ability. While a strength in one area can help offset a weakness in another area, the operation must be analyzed as a whole.

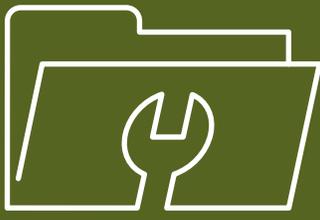
In summary, financial ratios and benchmarks are tools that management and others can use to analyze a business’ financial condition and past financial performance. By using multiple years of consistent balance sheet and accrual earnings figures, trends in key ratios can be observed. Business owners and lenders can use financial ratios and benchmarks to gain a common focus when analyzing past performance and when making decisions for the future.



Watch for the following warning signs of financial trouble:

The Double Dip of Death — debt-to-asset ratio >50 percent and operating expense/revenue ratio >80 percent.

The Triple Witch — debt-to-asset ratio >50 percent and operating expense/revenue ratio >80 percent and government payments >50 percent of net farm income.



FOR ADDITIONAL INFORMATION:

farm-credit.com

1.800.743.2125

SUMMARY / KEY RATIO CALCULATIONS AND BENCHMARKS

Repayment Analysis	Calculation	Green	Yellow	Red
Term Debt and Lease Coverage Ratio	$[(\text{NFIFO}^* + \text{Non Farm Earnings} + \text{Depreciation Expense} + \text{Interest on Term Debts and Capital Leases}) - \text{Income Tax Expense} - \text{Family Living Withdrawals}] / \text{Scheduled Annual Principal and Interest Payments on Term Debt and Capital Leases}$	>150%	110% to 150%	<110%
Debt Payment / Income Ratio**	$\text{Scheduled Annual Principal and Interest Payments on Term Debt and Capital Leases} / (\text{NFIFO}^* + \text{Gross Non-Farm Revenue} + \text{Depreciation Expense} + \text{Interest on Term Debts and Capital Leases})$	<25%	25% to 50%	>50%
Liquidity Analysis				
Current Ratio	$\text{Total Current Farm Assets} / \text{Total Current Farm Liabilities}$	>1.50%	1.00 to 1.50	<1.00%
Working Capital	$\text{Total Current Farm Assets} - \text{Total Current Farm Liabilities}$	compare to business expenses, absolute amount depends on scope of operation		
California Working Capital Rule**	$\text{Working Capital} / \text{Total Expenses}$	>50%	20% to 50%	<20%
Solvency Analysis				
Debt / Asset Ratio	$\text{Total Farm Liabilities} / \text{Total Farm Assets}$	<30%	30% to 55%	>55%
Equity / Asset Ratio	$\text{Total Farm Equity} / \text{Total Farm Assets}$	>55%	30% to 55%	<30%
Debt / Equity Ratio	$\text{Total Farm Liabilities} / \text{Total Farm Equity}$	<42%	42% to 122%	>122%
Profitability Analysis				
Operating Profit Margin Ratio	$(\text{NFIFO}^* + \text{Farm Interest Expense} - \text{Operator Management Fee}) / \text{Gross Revenue}$	>25%	10% to 25%	<10%
Rate of Return on Farm Assets (ROA) (mostly owned)	$(\text{NFIFO}^* + \text{Farm Interest Expense} - \text{Operator Management Fee}) / \text{Average Total Farm Assets}$	>5%	1% to 5%	<1%
Rate of Return on Farm Assets (ROA) (mostly rented / leased)	$(\text{NFIFO}^* + \text{Farm Interest Expense} - \text{Operator Management Fee}) / \text{Average Total Farm Assets}$	>12%	3% to 12%	<3%
Rate of Return on Farm Equity (ROE)	$(\text{NFIFO}^* - \text{Operator Management Fee}) / \text{Average Total Farm Equity}$	look at trends and compare to other farm and non-farm investments		
Financial History				
Operating Expense / Revenue Ratio (mostly owned)	$\text{Operating Expenses [excluding interest and depreciation]} / \text{Gross Revenue}$	<65%	65% to 80%	>80%
Operating Expense / Revenue Ratio (mostly rented / leased)	$\text{Operating Expenses [excluding interest and depreciation]} / \text{Gross Revenue}$	<75%	75% to 85%	>85%
Interest Expense Ratio	$\text{Interest Expense} / \text{Gross Revenue}$	<12%	12% to 20%	>20%
Depreciation Expense Ratio	$\text{Depreciation Expense} / \text{Gross Revenue}$	compare to capital replacement and term debt repayment margin		
Asset Turnover Ratio	$\text{Gross Revenue} / \text{Average Total Farm Assets}$	depends heavily on type of operation and whether it is owned / leased		
Net Farm Income from Operations Ratio	$\text{NFIFO}^* / \text{Gross Revenue}$	look at trends, varies due to cyclical nature of agriculture prices and incomes		

*NFIFO = Net Farm Income From Operations excluding gains or losses from the disposal of farm capital assets. ** Not a ratio recommended by the Farm Financial Standards Taskforce and Council, but widely used.