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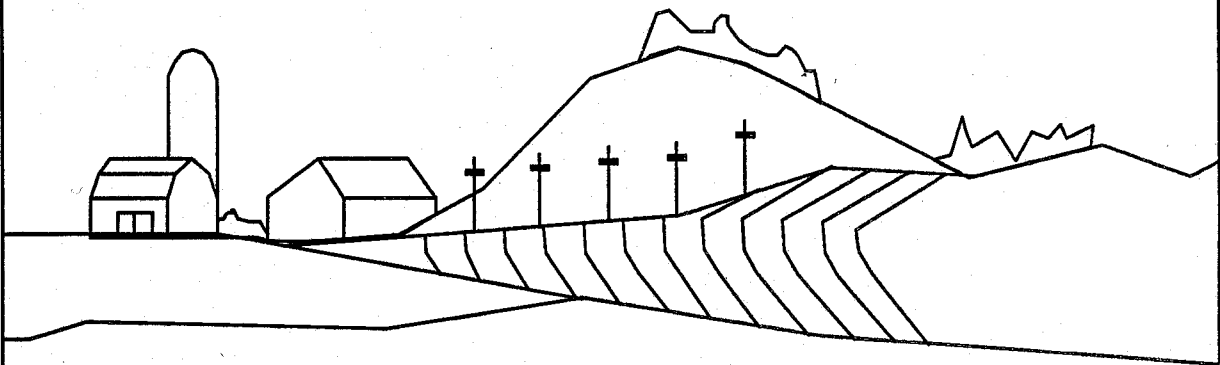
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Entering the 1990s:



An Update of the Financial Status of North Dakota Farm and Ranch Operators

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ENTERING THE 1990s: AN UPDATE OF THE FINANCIAL STATUS OF NORTH DAKOTA FARM AND RANCH OPERATORS

F. Larry Leistritz, David L. Watt, and Janet K. Wanzek*

The year 1989 was difficult for North Dakota farm and ranch operators as many experienced drought conditions. Because the preceding year (1988) had been characterized by the most severe drought conditions that most of the state had faced since the 1930s, many farmers and ranchers began 1989 with grain and feed reserves substantially depleted compared to typical levels. For example, inventories of all wheat on farms in the state totaled 163 million bushels on December 1, 1988 and 93 million bushels on June 1, 1989, compared to 215 million bushels on March 1, 1988 (NASS 1989). Further, while Congress responded to 1989 drought conditions with a special assistance program similar to that implemented in 1988, it seemed likely that the levels of assistance that would be available to most North Dakota producers would be less than in 1988.

Because of the unique combination of conditions prevailing in 1989, many policymakers wanted to learn how these conditions affected the financial status of farmers and ranchers. This report addresses these issues.

Study Procedures

Information was drawn from a 1990 update of the North Dakota longitudinal farm panel study. This study began in 1985 when 933 farm and ranch operators were contacted by telephone regarding their 1984 financial situation and socioeconomic characteristics. Initial screening questions were incorporated into the 1985 survey to ensure that all respondents were less than 65 years old, were operating a farm, considered farming to be their primary occupation, and sold at least \$2,500 of farm products in 1984 (Leholm et al. 1985). These producers were subsequently contacted in 1986, 1988, 1989, and 1990 and asked to provide financial information for the previous year.

The 1990 survey, like those of previous years, was conducted in late March and early April in order to contact producers soon after they had completed their income taxes but before fieldwork began. Producers received a letter before the telephone call asking that they have copies of their 1040F Form and a recent balance sheet available for reference during the interview. This report is based on data from 340 producers who provided information in each of the five surveys. (For more detailed discussions of survey procedures and results of the 1985, 1986, 1988, and 1989 surveys, see Leholm et al. 1985, Leistritz et al. 1987, Leistritz et al. 1989a, and Leistritz et al. 1989b).

Selected characteristics of survey participants are compared to data from the 1987 Census of Agriculture in Table 1. The distribution of farms by region (Figure 1) is comparable between the 1989 and 1990 surveys and between the surveys and the 1987 Census count. The age distribution also is similar between the surveys and the Census except in the two youngest age brackets. This difference probably reflects the fact that there was no procedure for incorporating new farming entrants into the farm panel.

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TABLE 1. DISTRIBUTION OF NORTH DAKOTA FARMS BY REGIONS, ACRES OPERATED, AND AGE OF OPERATOR FROM THE 1987 CENSUS OF AGRICULTURE AND THE 1989 AND 1990 FARM OPERATOR SURVEYS

| Item | 1987 Census ^a | 1989 Survey | 1990 Survey |
|------------------------------|-----------------------------|----------------|----------------|
| | ----- percent ----- | | |
| Region: | | | |
| West | 17.0 | 15.1 | 16.3 |
| West Central | 34.4 | 32.8 | 32.9 |
| East Central | 27.4 | 28.3 | 28.0 |
| East | 21.2 | 23.8 | 22.8 |
| Age: ^b | | | |
| Less than 25 | 3.2 | 0.0 | 0.0 |
| 25 to 34 | 17.6 | 14.4 | 13.6 |
| 35 to 44 | 20.0 | 23.7 | 24.4 |
| 45 to 54 | 18.5 | 23.2 | 25.2 |
| 55 or over | 40.7 | 38.7 | 36.8 |
| Acres Operated: ^b | | | |
| Less than 180 | 8.9 | 3.0 | 1.5 |
| 180 to 499 | 15.2 | 9.0 | 6.5 |
| 500 to 999 | 33.0 | 23.2 | 23.9 |
| 1,000 to 1,999 | 26.4 | 41.2 | 39.5 |
| 2,000 or more | 16.7 | 23.6 | 28.6 |

^aSOURCE: U.S. Bureau of the Census. 1989. 1987 Census of Agriculture, North Dakota State and County Data. Washington, D.C.: U.S. Department of Commerce.

^bIncludes only farms whose operator reported farming as his/her principal occupation.

Comparing the distribution of acres operated between the surveys and the Census shows that the surveys included fewer farms in the smallest size groups (less than 500 acres operated).

The remainder of this report is organized into three parts. First, salient characteristics of the farm operation and family situation of respondents are briefly described. Second, effects of the 1989 drought and drought assistance programs are examined, and the off-farm work involvement of farm operators and their spouses in 1989 is briefly reviewed. Finally, the financial situation of farm and ranch operators and their families is assessed by examining their income for 1989 and their balance sheet data as of December 31, 1989.

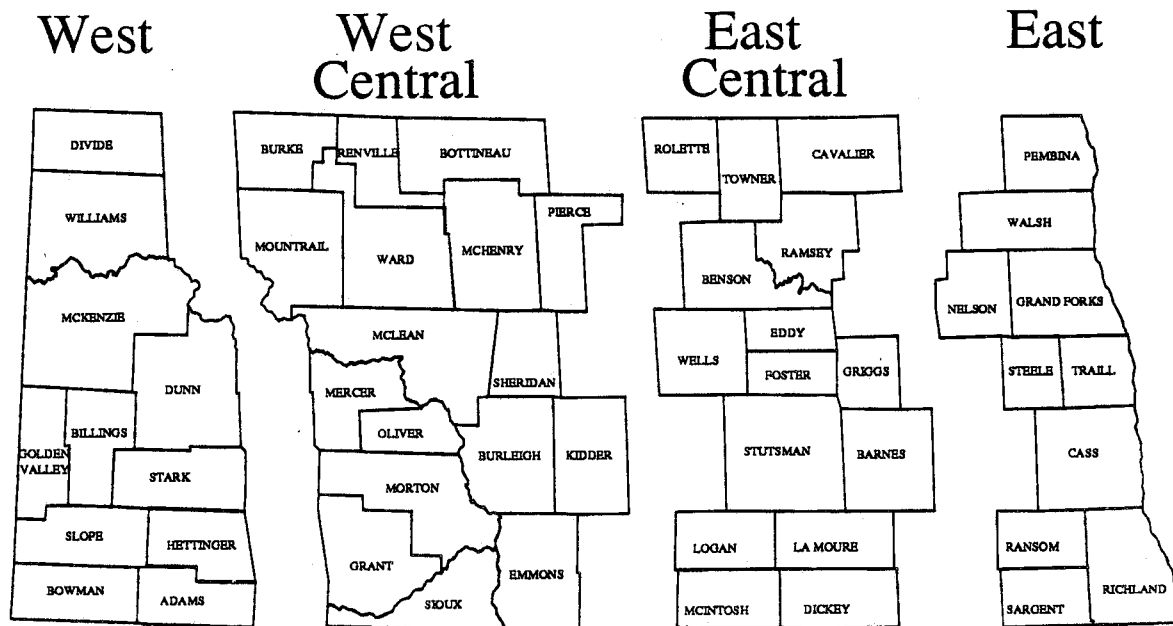


Figure 1. North Dakota Geographic Locations

Farm and Family Characteristics

The total acres operated by farm panel members had increased slightly (2.2 percent) between the 1989 and 1990 surveys (Table 2). (The values shown in Table 2, as in other tables where values for both 1988 and 1989 are reported, are for those producers who provided data for both years.) The overall change in acres operated was comprised of an increase in acres owned (8.4 percent) partially offset by a decrease in acres rented (3.9 percent). When asked how many acres they planned to be farming five years from now, the respondents as a group expected to reduce the size of their operation by an average of about 11 percent.

The typical respondent reported that the farm had been in the family for slightly more than 60 years (Table 3). Only 13 percent reported that the farm had been in the family less than 30 years. More than 31 percent of the respondents began farming during the 1970s. The average household size was 3.4 persons.

Effects of 1989 Drought

Respondents reported drought losses were less severe than in 1988 (Table 4). The statewide losses averaged 46 percent for small grains, 45 percent for row crops, 46 percent for hayland, and 43 percent for pasture. About 60 percent of the respondents received some form of drought assistance, such as crop disaster assistance payments or aid from the Emergency Feed Program or Emergency Feed Assistance Program. For the producers who received drought assistance, crop disaster payments were by far the largest source of aid (Table 5). The 1989 drought assistance payments averaged about half the 1988 level. In contrast, the drought losses (in terms of yields) for 1989 averaged about 70 percent of 1988 levels (Figure 2).

TABLE 2. FARM CHARACTERISTICS OF SURVEY RESPONDENTS,
1989 AND 1990

| Item | 1989 Survey | 1990 Survey |
|---|----------------|----------------|
| Acres owned (mean) ^a | 796.0 | 863.2 |
| Acres rented to others (mean) ^a | 40.4 | 31.3 |
| Acres rented from others (mean) ^a | 970.7 | 932.9 |
| Total acres operated | 1726.2 | 1764.8 |
| Acres plan to farm five years from now (mean) | -- | 1563.4 |

^aAcres owned, rented to others, and rented from others represent the mean for all operators, including those who had no acres in a given category (e.g., acres owned).

The extent of drought losses and magnitude of impact assistance payments varied by region (Appendix Table 1). The west central region (Figure 1) had the highest percentage drought losses and the highest percentage of producers who received drought disaster assistance. The largest average and median crop disaster payments, however, were received by producers in the east central region.

One potential response to drought conditions and associated reductions in farm income is increased off-farm work by farm operators and/or their spouses (Leistritz and Ekstrom 1986). The drought conditions of 1988 and 1989 apparently led to increased off-farm employment for many members of North Dakota farm households. Almost 26 percent of the farm operators surveyed had worked at an off-farm job in 1989 (Table 6), compared to only 19 percent one year earlier. Even more striking is the fact that almost 47 percent of their spouses worked off the farm in 1989, up from 37 percent in 1988.

Farm Financial Situation

Both gross farm income and net cash farm income dropped in 1989 compared to 1988 levels (Table 7). The average net cash farm income reported by survey respondents declined by \$5,162 or 23 percent between 1988 and 1989. The percentage of producers reporting a zero or negative net cash farm income increased from 11 percent in 1988 to 16 percent in 1989.

TABLE 3. FAMILY CHARACTERISTICS OF SURVEY RESPONDENTS, 1990

| Item | Units | 1990 Survey |
|--|---------|----------------|
| Years the Farming Operation Has Been in the Family: | | |
| Mean | No. | 63.5 |
| Distribution: | | |
| Less than 10 | Percent | 1.5 |
| 10-29 | Percent | 11.5 |
| 30-49 | Percent | 18.6 |
| 50-69 | Percent | 23.0 |
| 70-99 | Percent | 30.9 |
| 100 or more | Percent | 6.5 |
| Year Operator Began Farming | | |
| Before 1950 | Percent | 15.4 |
| 1951-60 | Percent | 25.3 |
| 1961-70 | Percent | 21.3 |
| 1971-80 | Percent | 31.5 |
| 1981-85 | Percent | 6.5 |
| Number of Persons in Household | | |
| Mean | No. | 3.4 |
| Distribution: | | |
| One | Percent | 4.4 |
| Two | Percent | 31.9 |
| Three | Percent | 22.4 |
| Four | Percent | 18.9 |
| Five | Percent | 14.7 |
| Six or more | Percent | 7.7 |

The average value of farm and personal assets reported by respondents as of December 31, 1989 represented a slight decrease (2.9 percent) compared to the previous year; the median value was unchanged. During the same period, total debt increased by 3.9 percent. These changes in the value of producers' assets and liabilities represent a reversal of the changes observed between 1987 and 1988, when asset values increased and debt decreased (Leistritz et al. 1989b).

Consistent with these changes in the value of assets and liabilities, the average producer's net worth declined (5.7 percent) and average and median values of the debt-to-asset ratio increased. The reader is cautioned, however, that the relatively large increase in the average debt-to-asset ratio resulted in part from the influence of those producers (6.8 percent) whose debts exceeded the value of their assets. The median values may be more reflective of the change experienced by a typical producer.

TABLE 4. DROUGHT LOSSES IN 1988 AND 1989

| Item | 1989 Survey | 1990 Survey |
|--|----------------|----------------|
| Percent Loss for Small Grains: | | |
| Mean | 70.3 | 45.5 |
| Median | 70.0 | 40.0 |
| Percent Loss for Row Crops: | | |
| Mean | 56.6 | 44.7 |
| Median | 55.0 | 40.0 |
| Percent Loss for Hayland: | | |
| Mean | 66.7 | 45.9 |
| Median | 72.5 | 50.0 |
| Percent Loss for Pasture: | | |
| Mean | 59.1 | 42.9 |
| Median | 60.0 | 50.0 |
| Did Respondent Receive Drought Assistance? | | |
| Yes (percent) | 94.2 | 59.7 |
| No (percent) | 5.8 | 40.3 |

Values of financial variables are summarized by region in Appendix Table 2. All regions showed a decrease in average gross farm income, and all but the west central region had a decrease in average net cash farm income. Median values, which likely are more reflective of the typical producer's situation, indicated a decline in gross and net income in all four regions. The average value of total assets decreased in three of the four regions (all but the west), and the median value also decreased in three of four regions (all but the west central). The average value of total liabilities increased in three regions, and average net worth decreased in three regions.

The total family income reported by farm households reflected the decrease in net cash farm income from 1988 to 1989. Total farm family income decreased about 17 percent, on average, from 1988 to 1989 (Table 8). This reflects the decrease in net cash farm income, which was only partially offset by increases in off-farm earnings and other nonfarm income.

Conclusions and Implications

Results of the 1990 survey of the North Dakota longitudinal farm panel indicate that 1989 was a less-than-favorable year financially for most of the state's producers. Their 1989 drought losses, while generally less than those incurred in 1988, were still substantial, and

TABLE 5. RECEIPT OF DROUGHT ASSISTANCE BY RESPONDENTS
IN 1989

| Item | Value |
|--|---------|
| Amount Received for Crop Disaster Payments: | |
| Mean | \$8,512 |
| Median | \$4,918 |
| Amount Received from Emergency Feed Program: | |
| Mean | \$375 |
| Median | \$0 |
| Amount Received from Emergency Feed Assistance Program: | |
| Mean | \$166 |
| Median | \$0 |
| Amount of Advanced Deficiency Payments That Were Forgiven: | |
| Mean | \$239 |
| Median | \$0 |
| Total Drought Assistance Payments Received: | |
| Mean | \$8,715 |
| Median | \$4,827 |

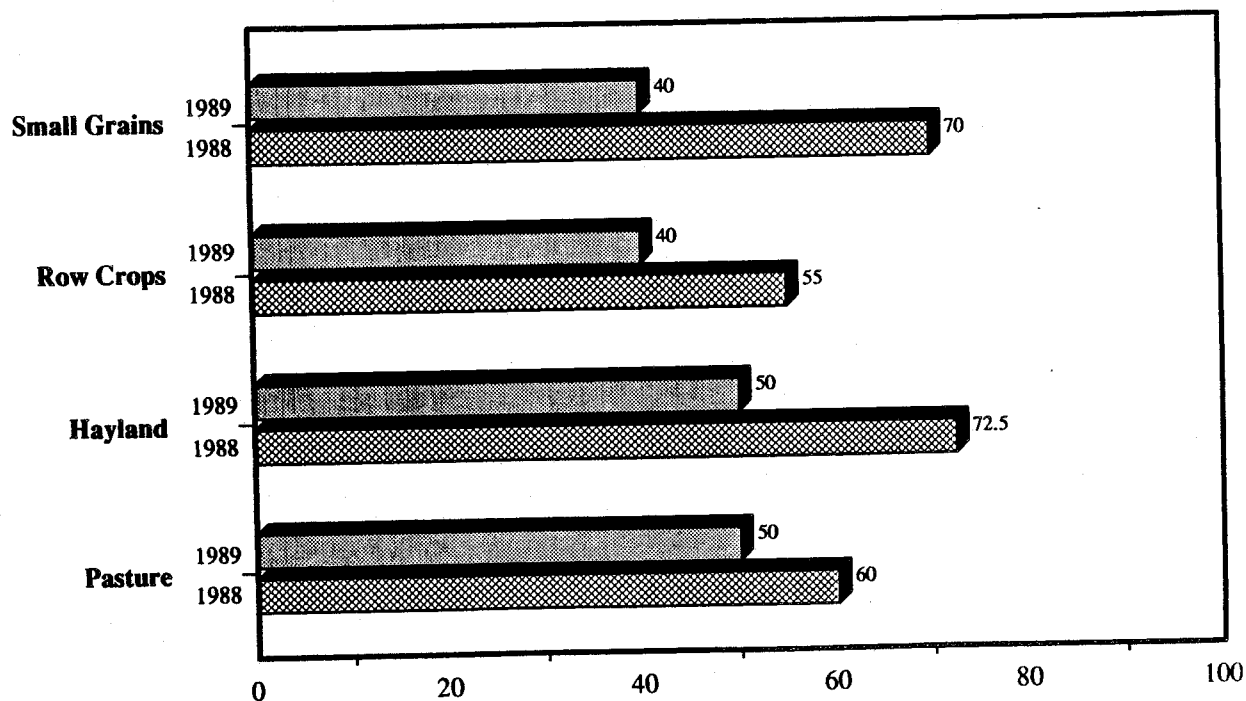


Figure 2. Drought Losses, 1989 and 1988 (median values)

TABLE 6. OFF-FARM WORK BY FARM OPERATORS AND SPOUSES, 1989

| Item | Unit | 1988 Survey | 1989 Survey |
|---|---------|----------------|----------------|
| Did Operator Work Off the Farm? | | | |
| Yes | Percent | 19.2 | 25.7 |
| No | Percent | 80.8 | 74.3 |
| How Many Days Operator Worked (at least 4 hours) Off the Farm: | | | |
| Mean | No. | -- | 105 |
| Median | No. | -- | 70 |
| Did Spouse Work Off the Farm? | | | |
| Yes | Percent | 37.4 | 46.8 |
| No | Percent | 62.6 | 53.2 |
| How Many Days Spouse Worked (at least 4 hours) Off the Farm: | | | |
| Mean | No. | -- | 149 |
| Median | No. | -- | 180 |

the federal drought assistance received by the typical producer was much less than in 1988. Therefore, the typical producer's net cash farm income was substantially lower in 1989 than in 1988. Most producer's balance sheets also deteriorated during 1989. Asset values decreased slightly and debt increased during 1989, resulting in declining net worth for the average producer.

The debt-to-asset ratio of producers has been used frequently as an index of vulnerability to financial problems (Leistritz and Ekstrom 1988). A number of analysts have indicated that a debt-to-asset ratio greater than 0.7 generally indicates extreme financial vulnerability. Often producers who are so highly leveraged cannot meet their interest payments and other current expenses out of current income, and many have difficulty making principal payments (Johnson et al. 1986; Jolly and Barkema 1985). The survey results indicate that the percentage of North Dakota producers who fall into this financially vulnerable category increased during 1989, rising from 14.1 percent as of December 31, 1988 to 17.1 percent as of December 31, 1989. This change represents a reversal of a pattern of financial recovery which had begun in 1987 and indicates the need for policymakers' continued attention to the farm financial situation.

While all areas of North Dakota have suffered from the drought conditions of the past two years, the west central region appears to have been the worst hit in 1989 with the most severe yield losses, the lowest level of net cash farm income, the lowest level of operator net worth, and the largest percentage decrease in net worth.

TABLE 7. SELECTED FINANCIAL ITEMS FOR NORTH DAKOTA FARM AND RANCH OPERATORS

| Item | Unit | 1988 | 1989 |
|------------------------------|---------|---------|---------|
| Gross Farm Income: | | | |
| Mean | Dollars | 124,903 | 119,250 |
| Median | Dollars | 90,000 | 80,701 |
| Distribution: | | | |
| Less than \$40,000 | Percent | 13.0 | 20.1 |
| \$40,000 - \$99,999 | Percent | 42.4 | 39.3 |
| \$100,000 - \$249,999 | Percent | 34.4 | 30.0 |
| \$250,000 - \$499,999 | Percent | 7.7 | 7.9 |
| \$500,000 or more | Percent | 2.5 | 2.6 |
| Net Cash Farm Income: | | | |
| Mean | Dollars | 22,441 | 17,279 |
| Median | Dollars | 17,000 | 10,177 |
| Distribution: | | | |
| Zero or negative | Percent | 11.2 | 16.4 |
| \$1 to \$4,999 | Percent | 7.3 | 15.4 |
| \$5,000 to \$9,999 | Percent | 12.1 | 16.8 |
| \$10,000 to \$24,999 | Percent | 36.4 | 29.2 |
| \$25,000 or more | Percent | 32.9 | 22.1 |
| Total Assets: | | | |
| Mean | Dollars | 419,047 | 407,162 |
| Median | Dollars | 300,000 | 300,000 |
| Total Debt: | | | |
| Mean | Dollars | 133,991 | 139,279 |
| Median | Dollars | 90,000 | 100,000 |
| Net Worth: | | | |
| Mean | Dollars | 285,891 | 269,633 |
| Median | Dollars | 185,000 | 175,000 |
| Debt-to-Asset Ratio: | | | |
| Mean | Percent | 38.0 | 55.5 |
| Median | Percent | 30.0 | 33.6 |
| Distribution: | | | |
| No debt | Percent | 16.3 | 13.5 |
| 0.01 to 0.40 | Percent | 47.1 | 44.1 |
| 0.41 to 0.70 | Percent | 22.5 | 26.4 |
| 0.71 to 1.00 | Percent | 9.8 | 9.3 |
| More than 1.00 | Percent | 4.3 | 6.8 |

TABLE 8. TOTAL FARM FAMILY INCOME, NORTH DAKOTA, 1988 AND 1989

| Item | Unit | 1988 | 1989 |
|--------------------------|---------|----------|----------|
| Net Cash Farm Income | Percent | 74.7 | 62.0 |
| Off-Farm Earnings | Percent | 15.3 | 19.5 |
| Other Nonfarm Income | Percent | 10.0 | 18.5 |
| Total Farm Family Income | Dollars | \$31,537 | \$26,165 |

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APPENDIX TABLE 1. DROUGHT EFFECTS IN 1989 BY REGION

| Item | Region | | | |
|---|--------|-----------------|-----------------|-------|
| | West | West Central | East Central | East |
| Percent Yield Loss for Small Grain: | | | | |
| Mean | 41.9 | 62.0 | 45.7 | 27.4 |
| Median | 42.5 | 64.0 | 45.0 | 25.0 |
| Percent Yield Loss for Row Crops: | | | | |
| Mean | 47.5 | 62.3 | 36.5 | 39.5 |
| Median | 55.0 | 72.5 | 30.0 | 33.0 |
| Percent Yield Loss for Hayland: | | | | |
| Mean | 45.4 | 58.1 | 48.7 | 25.5 |
| Median | 50.0 | 60.0 | 50.0 | 20.0 |
| Percent Yield Loss for Pasture: | | | | |
| Mean | 44.8 | 57.0 | 42.3 | 20.3 |
| Median | 50.0 | 50.0 | 50.0 | 10.0 |
| Respondent Received Disaster Assistance (Percent) | | | | |
| | 61.3 | 75.0 | 60.6 | 41.1 |
| Amount of Crop Disaster Payments Received: | | | | |
| Mean (Dollars) | 6,613 | 8,831 | 10,508 | 7,042 |
| Median (Dollars) | 1,656 | 5,000 | 7,500 | 3,919 |

APPENDIX TABLE 2. SELECTED FINANCIAL ITEMS FOR NORTH DAKOTA FARM AND RANCH OPERATORS BY REGION

| Item | Unit | West | | West Central | | East Central | | East | |
|-----------------------|---------|---------|---------|--------------|--------|--------------|---------|---------|---------|
| | | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 |
| Gross Farm Income: | | | | | | | | | |
| Mean | Dollars | 110,389 | 102,952 | 94,503 | 89,261 | 144,788 | 132,942 | 156,727 | 155,371 |
| Median | Dollars | 75,000 | 71,400 | 80,000 | 60,000 | 92,250 | 86,957 | 134,500 | 120,000 |
| Distribution: | | | | | | | | | |
| Less than \$40,000 | Percent | 15.1 | 17.4 | 12.5 | 27.0 | 13.3 | 16.7 | 10.3 | 14.9 |
| \$40,000 - \$99,999 | Percent | 49.1 | 58.7 | 57.3 | 43.8 | 40.0 | 40.5 | 20.6 | 22.4 |
| \$100,000 - \$249,999 | Percent | 30.2 | 19.6 | 25.0 | 22.5 | 31.1 | 29.8 | 52.9 | 44.8 |
| \$250,000 - \$499,999 | Percent | 1.9 | 0.0 | 4.2 | 6.7 | 12.2 | 8.3 | 13.2 | 14.9 |
| \$500,000 or more | Percent | 3.8 | 4.3 | 1.0 | 0.0 | 3.3 | 4.8 | 2.9 | 3.0 |
| Net Cash Farm Income: | | | | | | | | | |
| Mean | Dollars | 21,695 | 17,779 | 14,526 | 15,174 | 23,162 | 20,652 | 31,389 | 16,054 |
| Median | Dollars | 15,500 | 9,460 | 13,000 | 8,586 | 15,000 | 11,987 | 26,674 | 15,255 |
| Distribution: | | | | | | | | | |
| Zero or negative | Percent | 8.3 | 22.2 | 16.1 | 12.8 | 10.3 | 11.9 | 10.1 | 20.9 |
| \$1 to \$4,999 | Percent | 16.7 | 13.3 | 7.5 | 20.9 | 5.7 | 15.5 | 2.9 | 10.4 |
| \$5,000 to \$9,999 | Percent | 12.5 | 17.8 | 14.0 | 20.9 | 16.1 | 16.7 | 2.9 | 11.9 |
| \$10,000 or \$24,999 | Percent | 41.7 | 26.7 | 41.9 | 29.1 | 37.9 | 29.8 | 27.5 | 31.3 |
| \$25,000 or more | Percent | 20.8 | 20.0 | 20.4 | 16.3 | 29.9 | 26.2 | 56.5 | 25.4 |

- CONTINUED -

APPENDIX TABLE 2. SELECTED FINANCIAL ITEMS FOR NORTH DAKOTA FARM AND RANCH OPERATORS BY REGION
(CONTINUED)

| Item | Unit | West | | West Central | | East Central | | East | |
|-----------------------------|---------|---------|---------|--------------|---------|--------------|---------|---------|---------|
| | | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 | 1988 | 1989 |
| Total Assets: | | | | | | | | | |
| Mean | Dollars | 473,310 | 501,767 | 337,438 | 327,797 | 445,533 | 404,004 | 518,675 | 509,723 |
| Median | Dollars | 300,000 | 286,000 | 291,500 | 294,100 | 324,000 | 300,000 | 451,000 | 385,000 |
| Total Debt: | | | | | | | | | |
| Mean | Dollars | 158,142 | 161,759 | 119,106 | 138,123 | 137,697 | 125,452 | 156,000 | 162,035 |
| Median | Dollars | 80,000 | 100,000 | 100,000 | 100,000 | 81,000 | 100,000 | 114,000 | 100,000 |
| Net Worth: | | | | | | | | | |
| Mean | Dollars | 312,492 | 348,278 | 219,110 | 190,552 | 310,622 | 280,517 | 364,117 | 344,209 |
| Median | Dollars | 173,000 | 168,000 | 150,000 | 150,000 | 229,600 | 200,000 | 237,597 | 214,000 |
| Debt-to-Asset Ratio: | | | | | | | | | |
| Mean | Percent | 52.5 | 39.1 | 37.7 | 90.2 | 36.4 | 35.4 | 34.8 | 46.7 |
| Median | Percent | 32.0 | 30.0 | 32.4 | 38.9 | 28.0 | 32.2 | 30.0 | 33.3 |
| Distribution: | | | | | | | | | |
| No Debt | Percent | 10.2 | 7.8 | 14.6 | 12.4 | 21.6 | 20.9 | 14.9 | 10.4 |
| 0.01 to 0.40 | Percent | 46.9 | 52.9 | 48.5 | 43.8 | 42.0 | 38.4 | 49.3 | 47.8 |
| 0.41 to 0.70 | Percent | 22.4 | 17.6 | 21.4 | 22.5 | 21.6 | 30.2 | 25.4 | 34.3 |
| 0.71 to 1.00 | Percent | 12.2 | 15.7 | 12.6 | 11.2 | 8.0 | 5.8 | 9.0 | 3.0 |
| More than 1.00 | Percent | 8.2 | 5.9 | 2.9 | 10.1 | 6.8 | 4.7 | 1.5 | 4.5 |