



# 2010

# FINBIN

Report on  
Minnesota Farm Finances

May, 2011

## Acknowledgements:

- Contributing Minnesota producers
- Minnesota State Colleges and Universities Farm Business Management Education Program
- Southwestern Minnesota Farm Business Management Association



UNIVERSITY OF MINNESOTA  
**EXTENSION**

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# 2010 in Review

## FINBIN Report on Minnesota Farm Finances

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The 2,446 Minnesota farms included in the FINBIN database represent a broad cross-section of Minnesota production agriculture. While there is no “typical” Minnesota farm, these farms include a large enough sample to provide a good barometer of commercial farming in Minnesota. FINBIN data is provided by farms that participate in MnSCU Farm Business Management Education programs and the Southwest Minnesota Farm Business Management Association. These farms represent about 3 percent of the farms in the state and 10% of commercial farms with total sales of over \$100,000<sup>1</sup>.

### Highlights

- Median net farm income per farm was up 257% in 2010 from the depressed levels of 2009. The median farm earned \$119,116, up from \$33,373 in 2009.
- Incomes were up substantially for virtually every type and size of farm.
- Livestock farms rebounded from very weak profits or even losses in 2009 to post positive returns.
- Crop farms reported outstanding profits, with median earnings of \$161,229, up from \$57,124 in 2009.
- Dairy farms recovered from 2009’s very weak profits to record median earnings of \$67,838, up from \$5,384 in 2009. The average price received for milk was \$16.26 per hundredweight, up from \$13.57 in 2009.
- Hog farms showed the biggest turn-around. The median hog farm earned a net farm income of \$275,903 compared to \$7,415 in 2009.
- The median beef farm earned \$62,833, recovering from a loss of \$-6,534 in 2009. This group includes both cattle finishing and cow-calf operations.
- The average farm earned a rate of return on assets (ROA) of 12.5%, up from 3.1% in 2009 (based on adjusted cost or book valuation of assets).
- Government payments per farm totaled \$19,401, 2.6% of gross revenue and 10% of net farm income. Government payments were down 8% from 2009.
- The average farm’s net worth increased by over \$170,000 while their debt to asset ratio improved slightly to 43%.
- Profits were up in all regions of the state. Farms in the West Central region earned the highest median farm income, while farms in the East Central/Northeast had the lowest incomes.
- Farm earnings generally increased with farm size. This was a change from 2009, when the largest farms were somewhat less profitable than medium sized farms based on rate of return on assets (ROA).
- The average family spent almost \$55,000 on family living expenditures. The average family needed to generate \$72,000 from farm and non-farm sources to cover family living, income taxes, and other ongoing non-farm expenditures.

Below are some highlights of the financial trends for these farms over the past three years.

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<sup>1</sup>Farm Business and Household Survey Data: Customized Data Summaries from ARMS, Economic Research Service, United States Department of Agriculture, 2009.

<b>Highlights (MN Average)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Gross revenue (\$)	704,778	621,746	751,476
Total expense (\$)	563,024	568,111	559,650
Average net farm income (\$)	141,754	53,635	191,826
Median net farm income (\$)	91,242	33,417	119,116
Rate of return on assets (%)	10.5	3.1	12.5
Rate of return on equity (%)	14.6	1.3	18.9
Corn yield (bu.)	167	179	181
Soybean yield (bu.)	40	41	45
Spring wheat yield (bu.)	62	61	60
Corn price received (bu.)	\$4.17	\$3.80	\$3.67
Soybean price received (bu.)	\$10.30	\$9.84	\$9.66
Spring wheat price received (bu.)	\$7.55	\$5.82	\$5.03
Milk cows per dairy farm	141	136	137
Production per cow (lbs)	21,344	21,264	21,732
Milk price received (cwt)	\$19.46	\$13.57	\$16.26
Market hog price / cwt. sold	\$49.92	\$45.91	\$54.18
Feeder pig price paid / head	\$49.55	\$51.25	\$54.88
Finished beef price / cwt. sold	\$92.26	\$81.49	\$92.27
Feeder calf price paid / cwt.	\$105.23	\$97.29	\$112.61

Table 1: FINBIN Farm Financial Database Highlights, 2008 - 2010

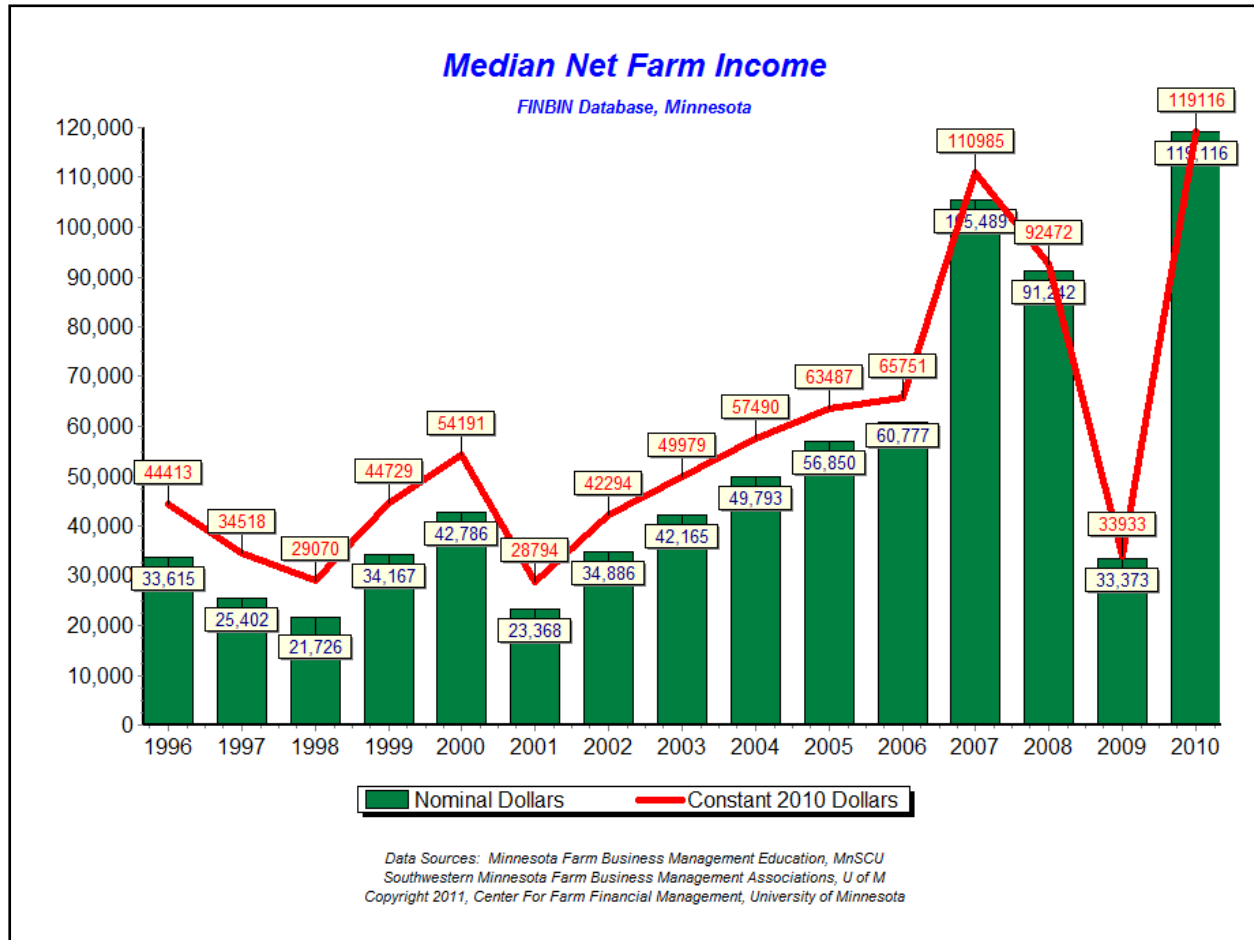


Figure 1: Median Net Farm Income

## Profitability

Median net farm income was \$119,116 for the 2,446 Minnesota farms that participated in Minnesota Farm Business Management programs in 2010. This was a major turnaround from 2009, when incomes were depressed by poor profits in the livestock sectors and high costs for crop producers. Based on inflation adjusted net farm income, 2010 was the most profitable year in the fifteen years included in FINBIN (Figure 1). Net farm income is the farm's contribution to covering family living expenditures, income taxes, retirement savings, and reinvestment in the business.

The average net farm income was \$191,826, significantly higher than the median (middle) farm. This indicates that profits were "skewed" toward the high income farms; the most profitable farms were profitable enough to increase the average for all farms.

Looking only at averages disguises the wide variation in profitability across farms. The median farm income for the most profitable 20% of these farms was \$462,348; the median income for the least profitable 20% was \$7,335. This occurs every year, but the spread between the high and low groups was much larger in 2010.

Government payments were down slightly from 2009 due to decreased MILC payments to dairy producers. The average farm received \$19,401 in total government payments in 2010 compared to \$21,000 in 2009. Government payments represented 2.6 % of gross farm revenue and 10.1% of net farm income. Payments received were primarily direct and conservation payments; crop producers did not receive substantial price-related counter-cyclical or ACRE payments.

The average farm earned a 12.5% rate of return on assets (assets valued at adjusted cost basis<sup>2</sup>), a big turnaround from the 2009 average of 3.1%. The average return on equity was 18.9%. Figure 2 shows the relationship between rate of return on assets (ROA) and rate of return on equity (ROE) over the past fifteen years. This relationship is a good barometer of sector profitability. Years when the ROE is higher than ROA are good years for agriculture. When this is the case, borrowed capital earned more than its cost (ROA was higher than the average interest rate paid on borrowed capital).

Asset valuation is a major factor in measuring rates of return. Figure 2 is based on the adjusted cost or book value of assets. This provides the best picture of returns on funds actually invested by the business owners. When assets are valued at estimated market value, ROA and ROE were somewhat lower, at 10.4% and 15.6%, respectively. This includes capitalized returns from estimated asset value changes during the year. This might be a better measure to evaluate potential future movement of investment into and out of these farms.

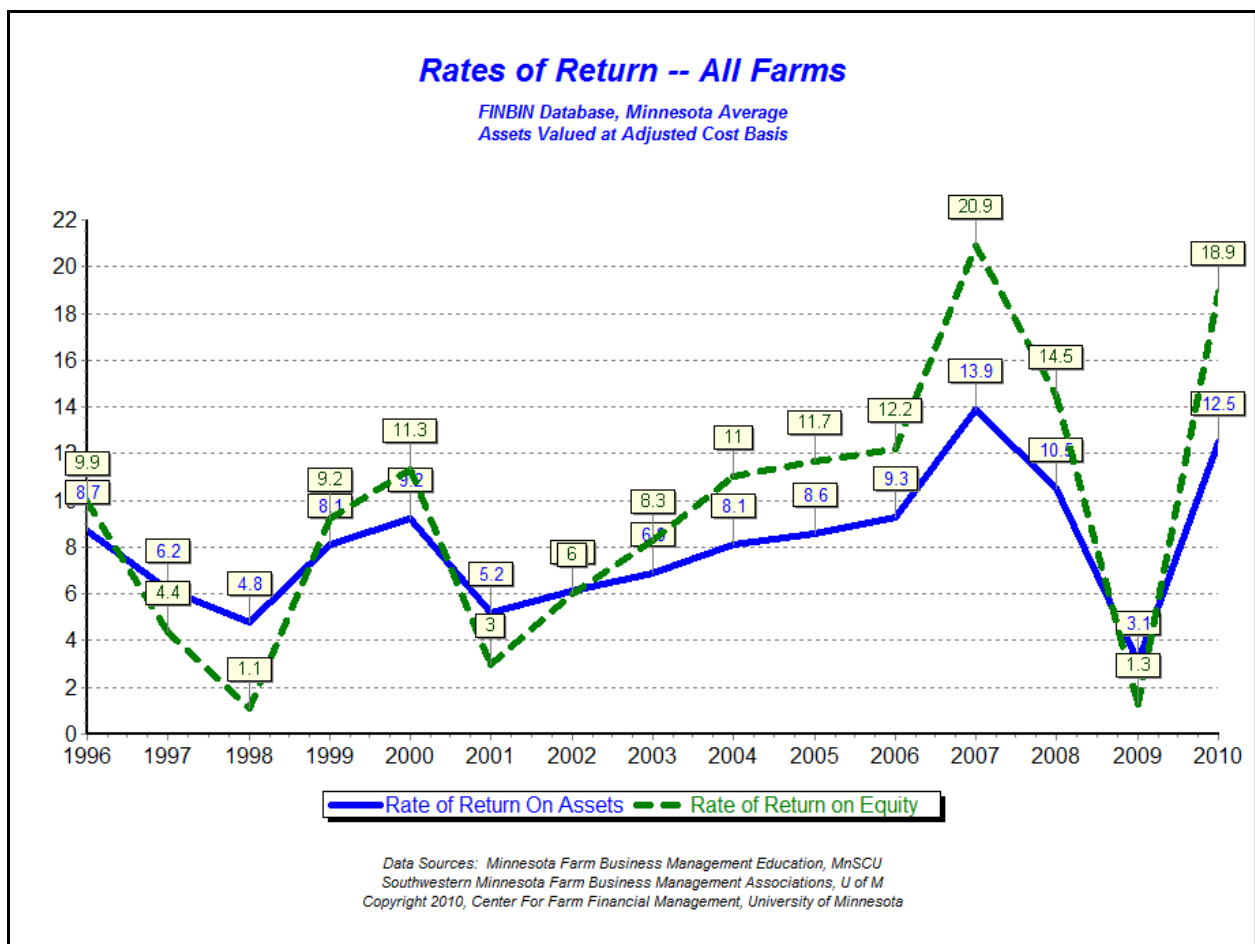


Figure 2: Rates of Return on Assets and Equity

<sup>2</sup>FINBIN includes assets valued at cost and at their estimated market value. Cost valuation of capital assets is based on “economic depreciation” which depreciates assets at a rate generally slower than allowed by tax law. The profitability measures discussed here are based on the cost value of assets.

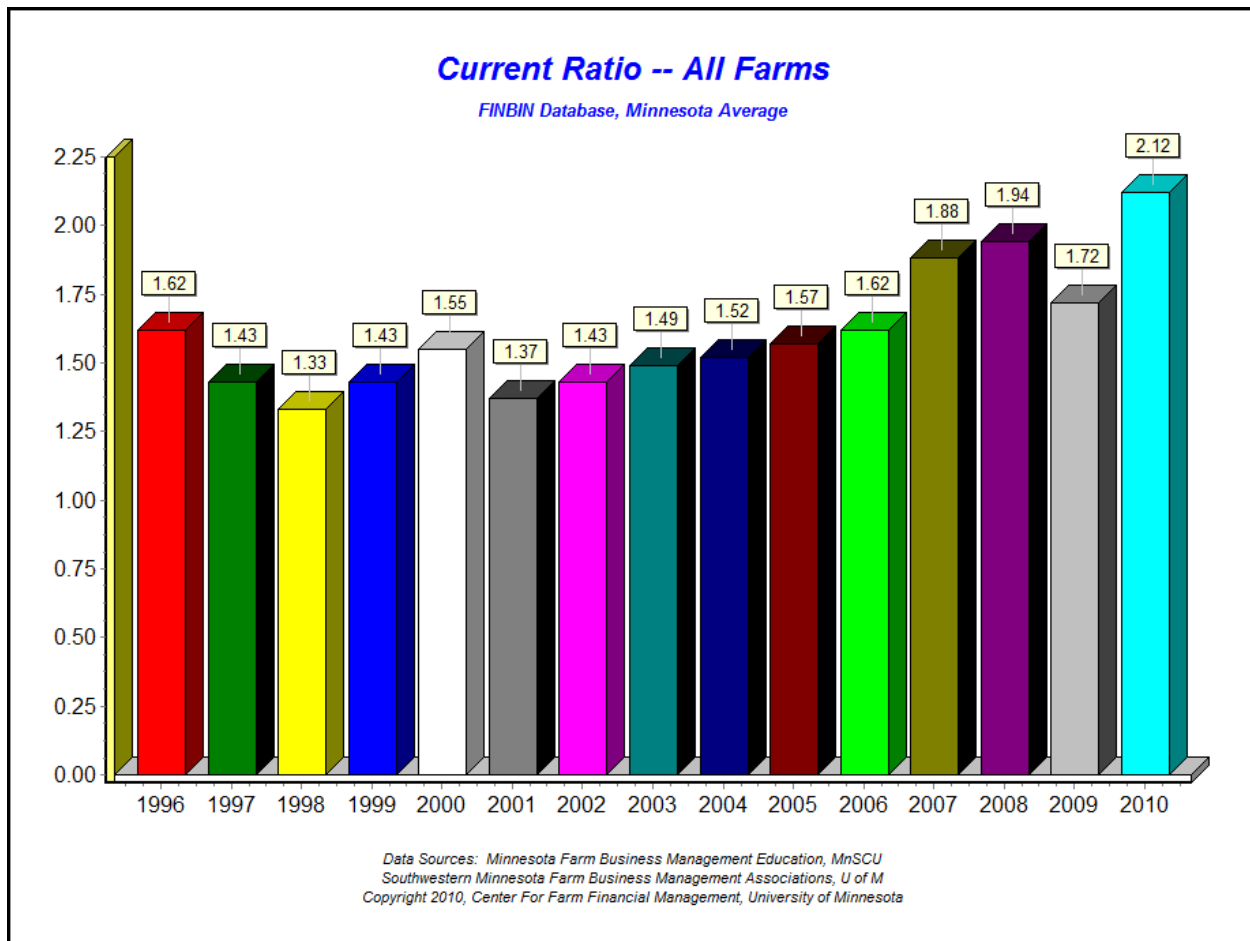


Figure 3: Current Ratio

## Liquidity

With the return to profitability, these farms regained the liquidity position that they lost in 2009. The average farm in the FINBIN database had a current ratio of 2.12:1 (Figure 3) at the end of 2010 (\$2.12 of current assets available to cover each dollar of current debt). For the first time since the inception of FINBIN, the average farm had a current ratio of over 2:1.

Current ratios for these farms improved steadily from 2001 to 2008 before taking a hit in 2009. Current ratios recovered in 2010 as the value of current assets increased while current liabilities remained virtually unchanged. Current assets increased primarily due to the increased value of crop inventories resulting from the run-up in prices at the end of 2010.

Working capital to gross revenue is perhaps a better measure of liquidity in that it relates the level of liquidity to business size. Figure 4 shows the relationship between working capital (current assets - current liabilities) and gross revenue for these farms over the past fifteen years. For this group of farms, working capital was 35.2% of gross revenue at the end of 2010. In general, 25% is a goal figure for this measure so these farms, as a group, were in a strong liquidity position at the end of 2010.

Strong liquidity gains were made by farms across the farming spectrum, including some farm types that came into the year in vulnerable liquidity positions.

- Specialized dairy farms had working capital equal to 17.5% of a year’s revenue at the end of 2010 compared to 9.6% at the beginning of the year.
- Specialized hog farms improved their working capital to gross revenue from 3.2% to 16.8% in 2010.

- Highly leveraged farms, those with debt to asset ratios over 60%, improved from 3.2% to 15.3% working capital to gross revenue.

It should be stressed that these liquidity gains were largely price driven rather than quantity driven. If crop prices revert to previous levels, these gains may well disappear.

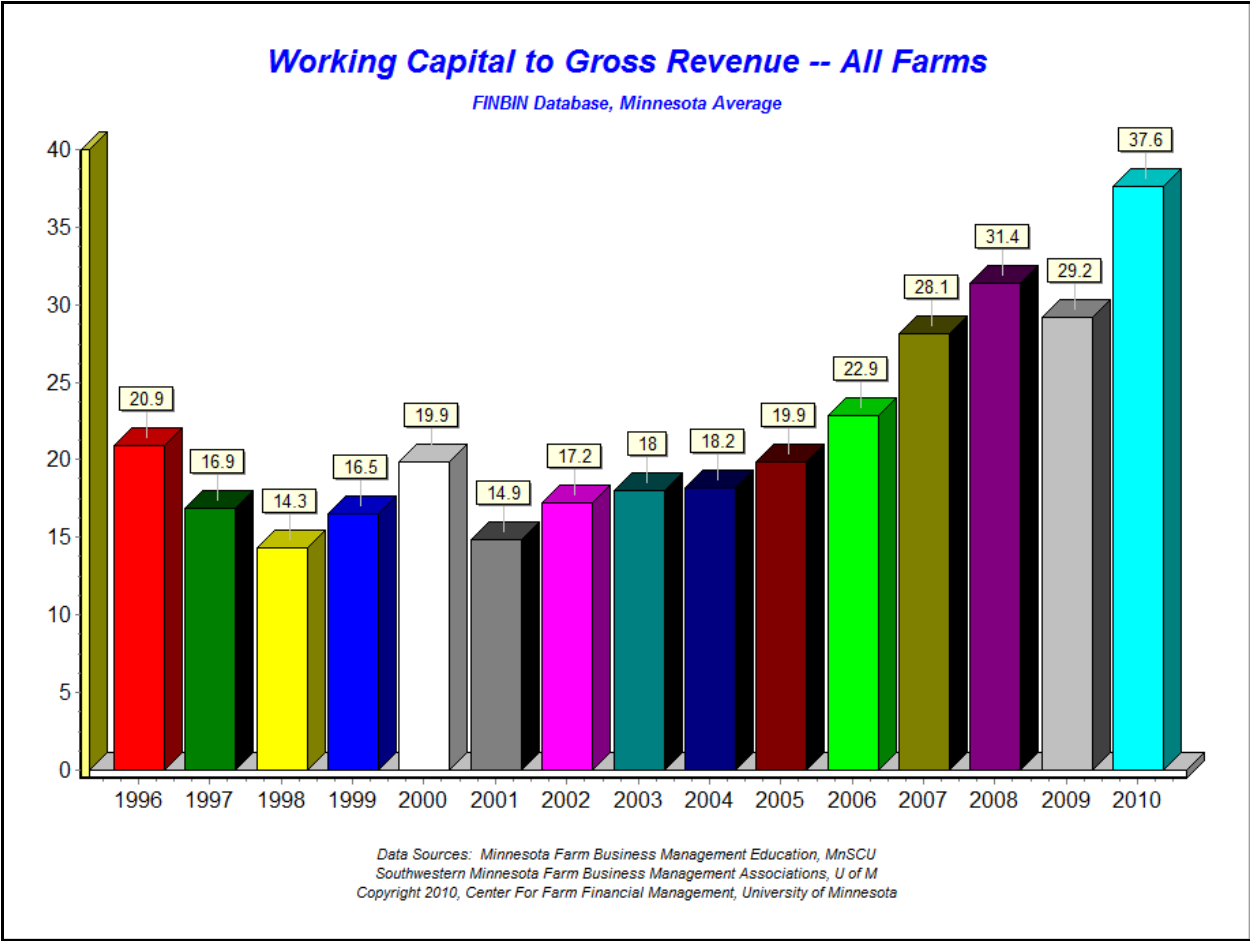


Figure 4: Working Capital to Gross Revenue

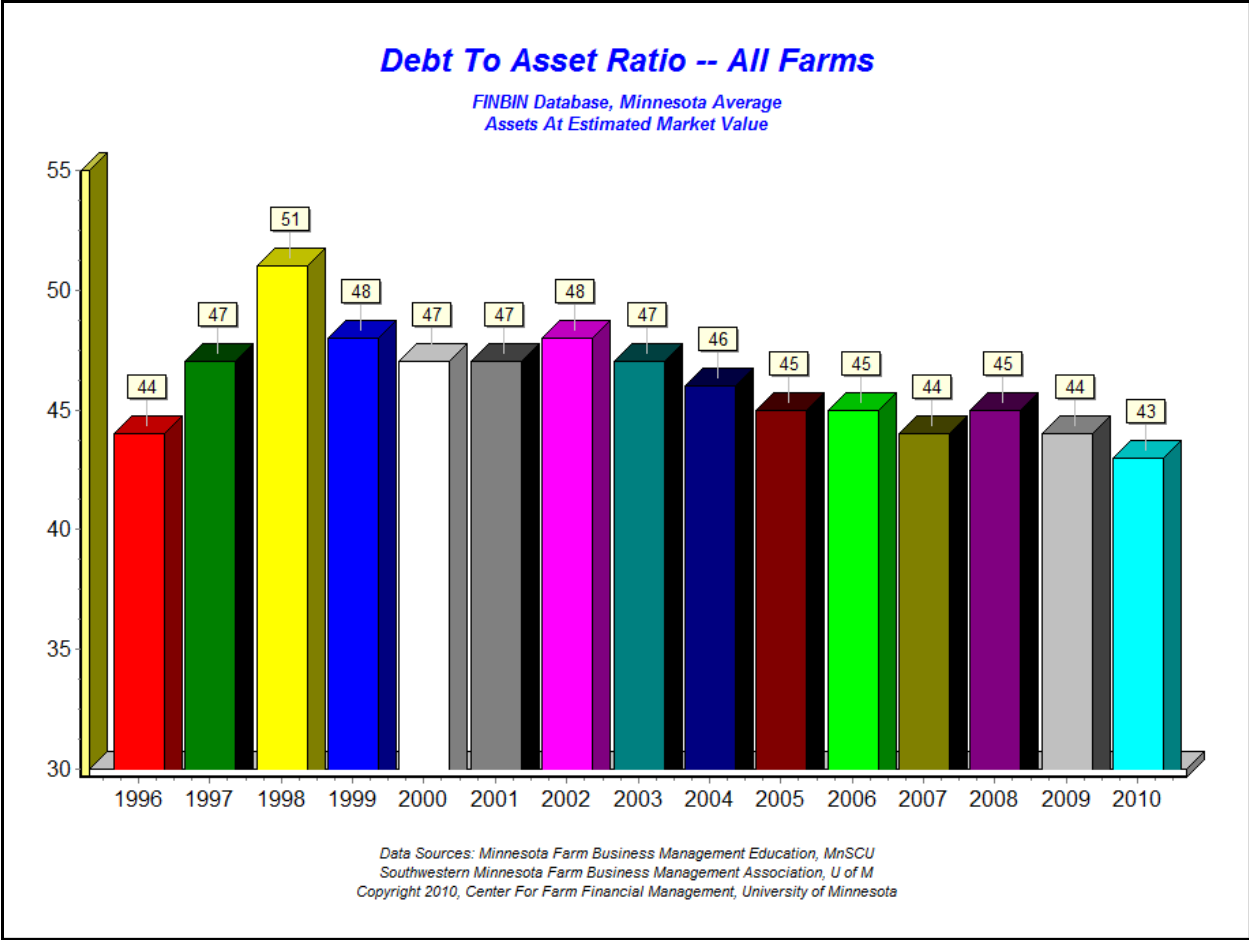


Figure 5: Debt to Asset Ratio

**Solvency**

The debt-to-asset ratios shown in Figure 5 are based on the estimated market value of all assets, farm and non-farm. Debts include deferred liabilities, an estimate of taxes payable if assets were liquidated. The debt to asset ratio for these farms continued a relatively constant trend of improvement that has occurred since 1998.

Table 2 shows the impact of financial leverage (or debt-to-asset position) on financial performance for these farms. In high-profit years like 2010, the high debt farms are able to leverage borrowed capital to multiply their earnings growth. However, they remain in higher risk territory in terms of their liquidity and solvency position.

<b>Debt to Asset Ratio</b>	<b>Under 40%</b>	<b>Over 60%</b>
Number of farms	944	664
Rate of return on assets	12.2 %	12.0 %
Rate of return on equity	14.7 %	34.2 %
Current ratio	3.75:1	1.36:1
Working capital to revenue	60.2 %	15.3 %
Term debt coverage	4.83:1	1.98:1

Table 2: Impact of Financial Leverage, 2010

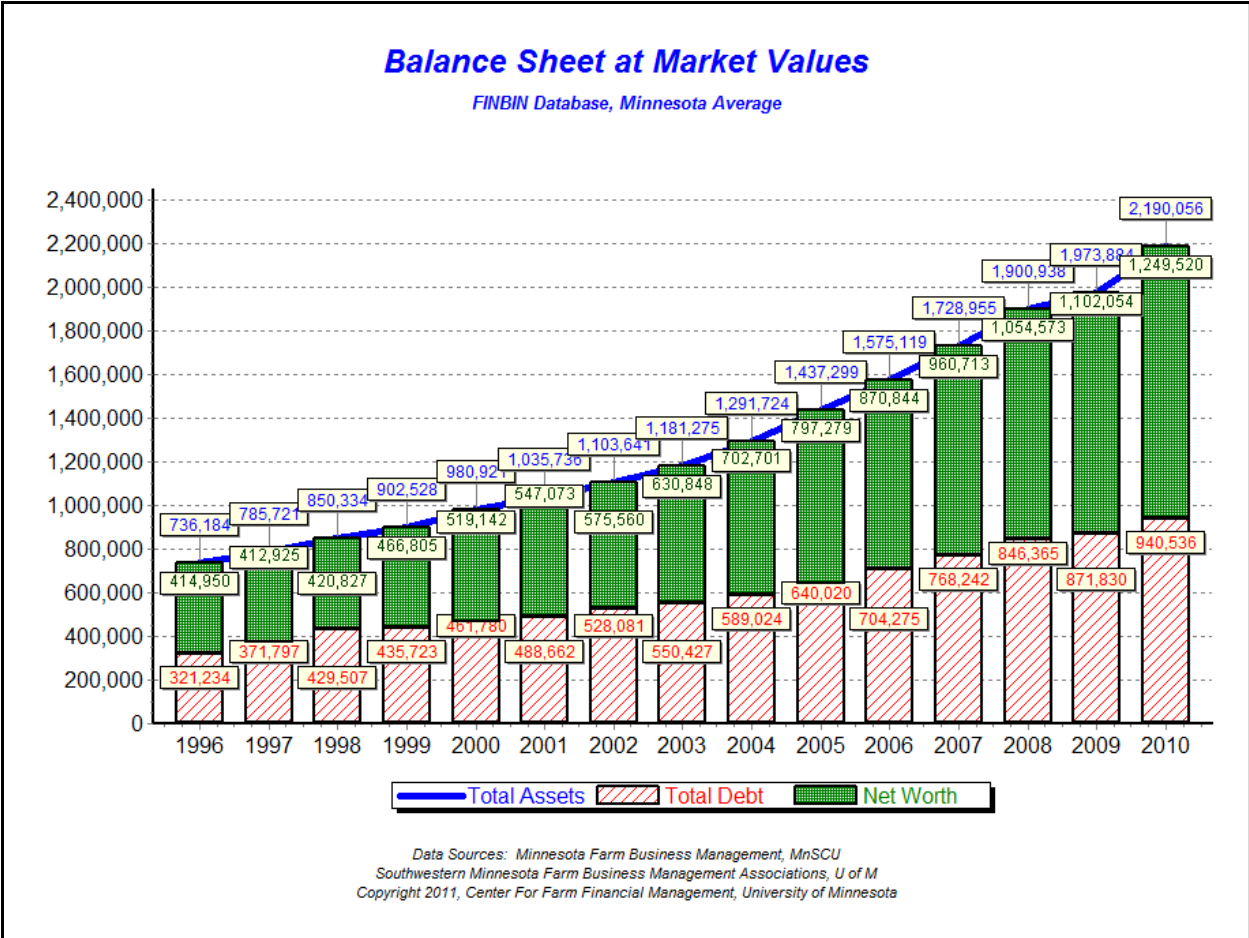


Figure 6: Balance Sheets at Market in Constant 2010 Dollars

While debt-to-asset ratios have not changed a great deal in recent years, there have been major changes on the balance sheets of these Minnesota farms (Figure 6). The average farm is growing rapidly. In constant dollars, total assets have increased by more than \$1.1 million over this fifteen year period. Total debt increased by just almost \$500,000 over the same period. As a result, the average farm has gained almost \$700,000 of real net worth growth over the past fifteen years. This equates to 10% growth in net worth per year.

Net worth increases can have two sources – those resulting from earnings, either farm or non-farm, and those resulting from asset appreciation. The producers who contribute to

FINBIN track both cost and market values of their assets so it is possible to separate these components.

- Over this fifteen year period, 79% of the net worth growth was earned. Retained earnings result when farm and non-farm income exceed the amount consumed by family expenditures and income taxes.
- The remaining 21% of net worth growth resulted from asset appreciation.

It should be noted that the individual farms included in FINBIN change somewhat each year, as some farms exit and new farms join the contributing educational programs.

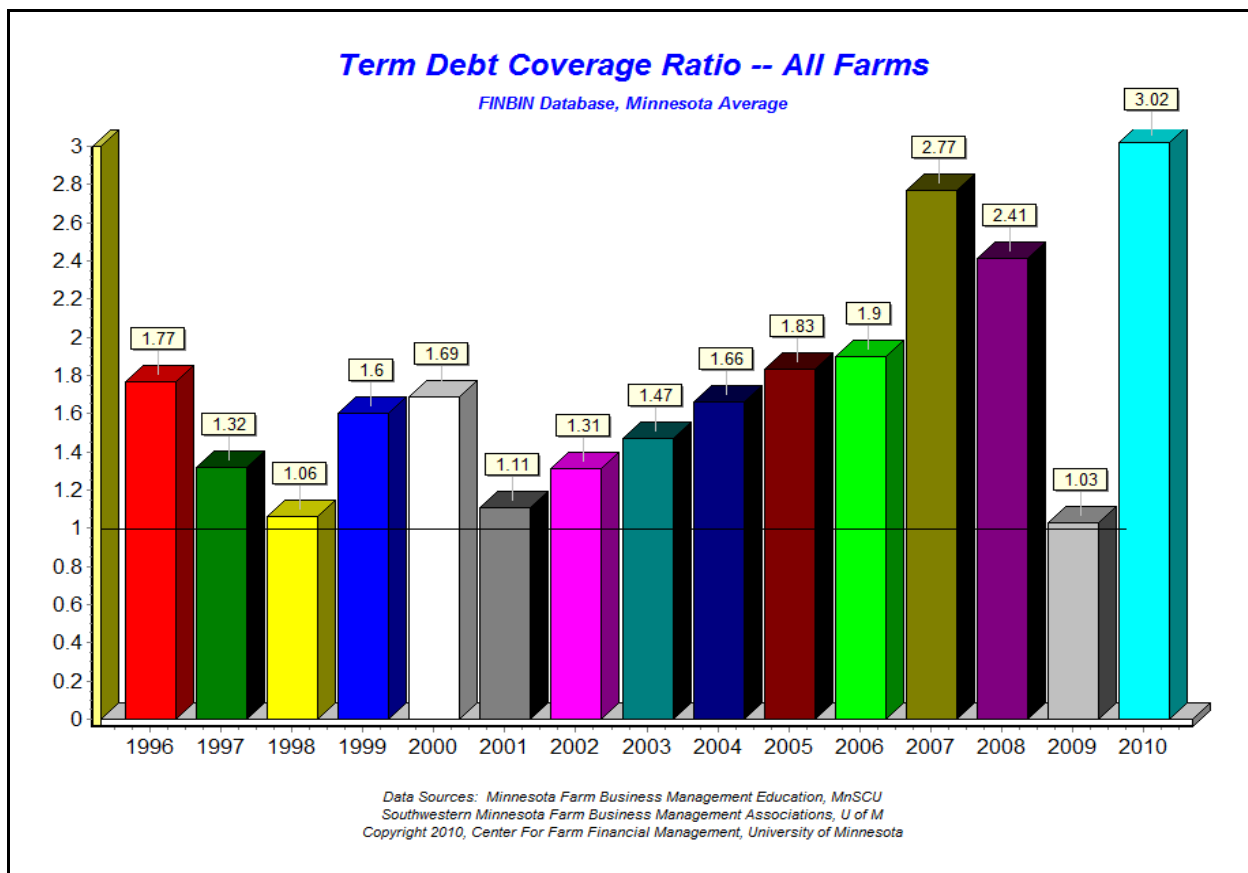


Figure 7: Term Debt Coverage Ratio

## Debt Repayment Ability

Term debt coverage ratio (TDCR) compares dollars available for debt repayment after family living and taxes versus scheduled debt repayment on intermediate and long-term debt. While other measures of business soundness, such as current ratio and debt to asset ratio, tend to change very little from year to year, TDCR shows much more variation. Therefore, it is probably a better indicator of year-to-year financial stress. A TDCR of 1.0 indicates that dollars generated for debt repayment exactly equaled scheduled payments.

The debt repayment capacity of these farms rebounded dramatically in 2010. The average farm generated \$3.02 of earnings to pay each \$1.00 of scheduled term debt payments (Figure 7). This compares to a TDCR of 1.03 in 2009.

Several farm types that had very weak repayment capacity in 2009 made big turnarounds in 2010.

- Specialized hog operations (those that generated over 70% of their income from hog sales) had negative repayment capacity in 2009 with a TDCR of (-1.13). Their coverage ratio rebounded to 3.65 in 2010.
- Specialized dairy operations (those that generated over 70% of their income from milk sales) generated a TDCR of 1.78 in 2010 after earning enough to repay only 0.22 per dollar of scheduled payments in 2009.
- The largest farms, those grossing over \$1 million, improved their TDCR from 0.95 to 3.42.

Lenders will feel much more comfortable extending operating credit to these groups in the coming year, although projected cash flows for livestock producers will tighten again with the outlook for increased feed costs.

## Regional Profitability

Farm incomes increased in every region of the state in 2010. All regions except the North Central/East Central region earned median incomes of greater than \$100,000, a stark contrast to 2009 when no region reached that

level. The West Central region had the highest median return while the Northwest region had the biggest increase in returns.

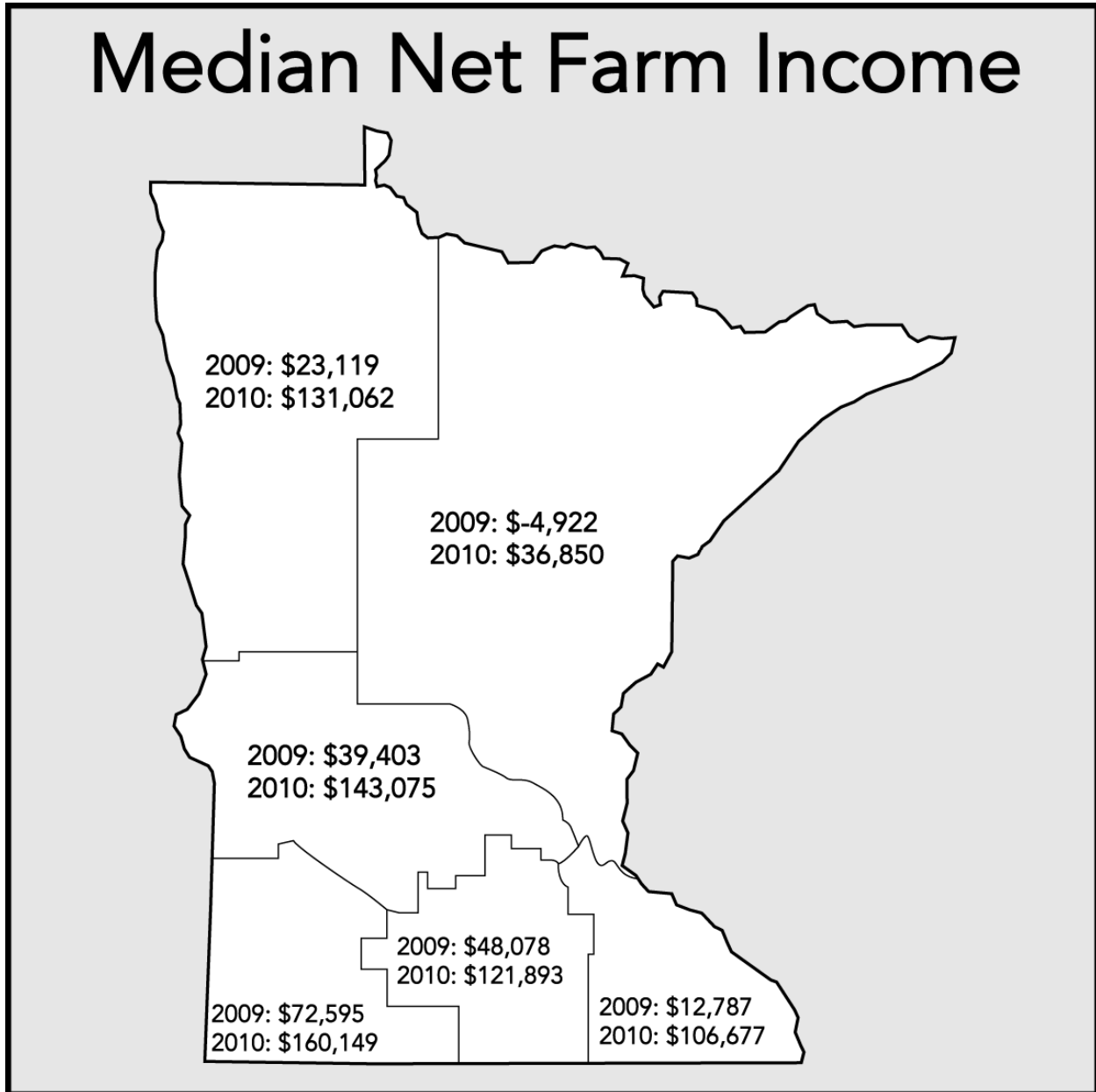


Figure 8: Median Net Farm Income by Region

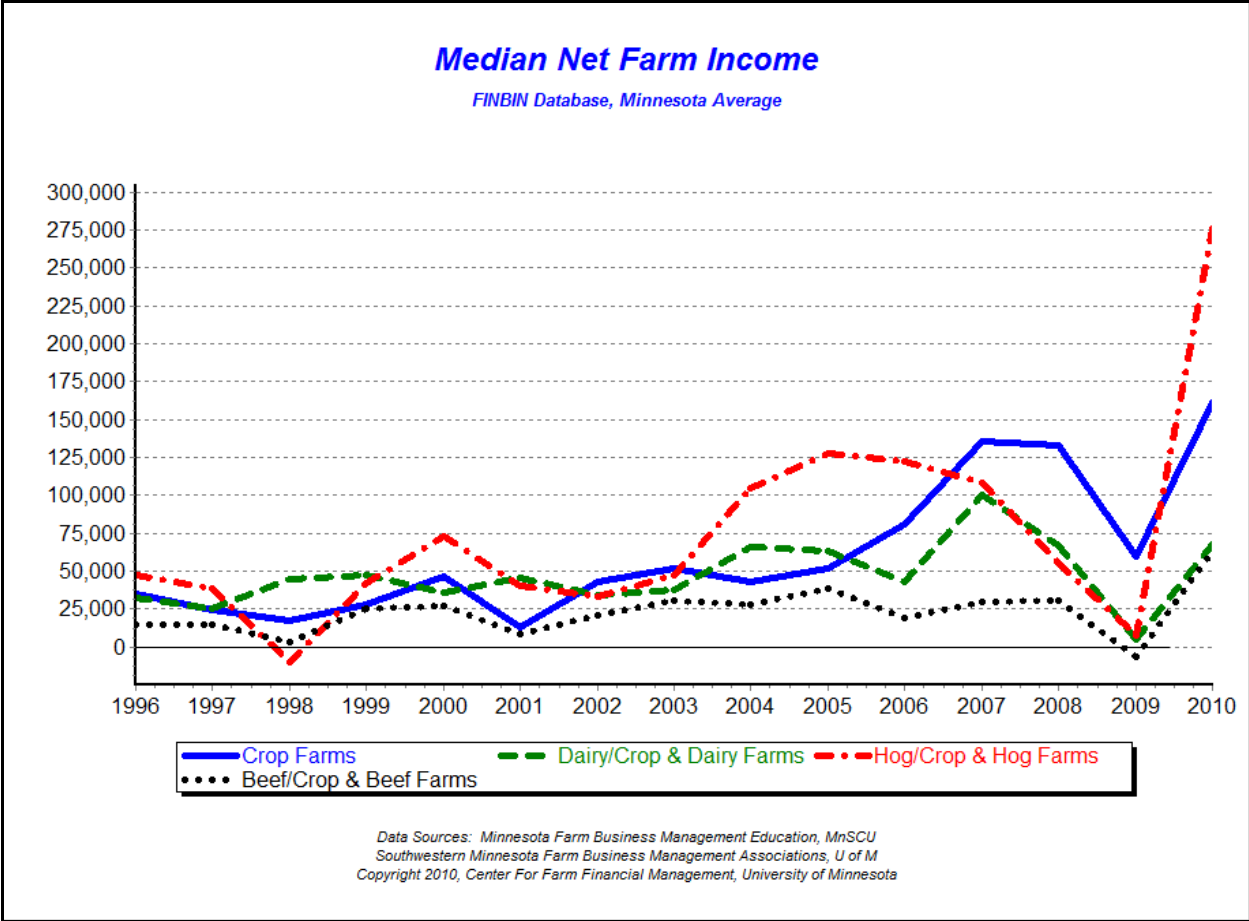


Figure 9: Net Farm Income by Farm Type

**Type of Farm<sup>3</sup>**

Profits were up for all major types of farm in 2010. All types of livestock operations made major turnarounds from 2009 when livestock profits were generally depressed across the board. Crop farms and hog farms were very profitable, while dairy and beef farms returned to moderate profitability.

**Crop Farms**

The 1,354 crop farms in the 2010 group earned a median net farm income of \$161,229, up from \$57,124 in 2009. Most of the increase was held on year-end balance sheets as the average farm posted an inventory change of over \$130,000. In order to realize these profits, they will have to sell their inventories at or above year-end prices.

<b>Crop Farms</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Median net farm income	\$132,748	\$57,124	\$161,229
Rate of return on assets	13.5%	5.2%	14.0%
Net worth change	\$142,839	\$96,508	\$216,853

Table 3: Crop Farm Returns

<sup>3</sup>Farms were categorized based on 70% of gross receipts from the respective enterprise. For this report, hog, dairy and beef farms were categorized based on 70% of gross receipts from the livestock enterprise or a combination of that enterprise plus crop sales.

It will probably surprise many that the average price received for major crops actually dropped in 2010. This reinforces the fact that profits were driven by inventory change. Soybean yields were up while corn and wheat yields were consistent with 2009 levels. Costs were generally

down as decreases in fertilizer, drying, and other energy related expenses more than offset increases in seed and land costs. Fertilizer cost for corn on cash rented land decreased by 27%. Corn seed was up by 9% and cash rent was up by 5%.

<b>Corn</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Yield ( bu.)	167	179	181
Price received / bu.	\$4.17	\$3.80	\$3.67
Cost of production / bu.	\$3.24	\$3.57	\$3.36
Cost per acre	\$554	\$620	\$580
<b>Soybeans</b>			
Yield (bu.)	40	41	45
Price received / bu	\$10.30	\$9.84	\$9.66
Cost of production / bu.	\$7.37	\$8.18	\$7.66
Cost per acre	\$331	\$331	\$340
<b>Spring Wheat</b>			
Yield (bu.)	62	61	60
Price received / bu.	\$7.55	\$5.82	\$5.03
Cost of production / bu.	\$5.16	\$5.11	\$4.87
Cost per acre	\$315	\$309	\$294

Table 4: Crop Yields, Prices and Cost of Production

### Dairy Farms

While dairy farms made a big comeback in 2010, the average dairy farm just broke even on milk production. The median net farm income for the 557 dairy farms in this group was \$67,838, up from \$5,384 in 2009. The average dairy farm earned a 7.6% return on assets and returned to a positive change in net worth.

The price received per hundredweight of milk increased from \$13.57 to 16.26. On average, it cost producers \$16.19 to produce milk so the average producer made 7 cents per hundred pounds sold. Costs were up just slightly, as the average total cost per cow increased by 3%.

<b>Dairy Farms</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Median net farm income	\$66,373	\$5,384	\$67,838
Rate of return on assets	8.1%	-1.2%	7.6%
Net worth change	\$78,645	-\$7,368	\$75,333

Table 5: Dairy Farm Returns

<b>Dairy Farm Highlights</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Number of dairy enterprises	499	509	527
Average number of cows	141	136	137
Production per cow (lb)	21,344	21,264	21,732
Price received / cwt	\$19.46	\$13.57	\$16.26
Cost of production / cwt	\$18.09	\$15.46	\$16.19
Cost per cow	\$3,343	\$2,979	\$3,066

Table 6: Dairy Farm Highlights

### Hog Farms

The 125 hog farms in the group were very profitable in 2010, after two years of low profits or losses. The hog farms tend to be larger than other operations as a group, and when they are profitable, they are often very profitable. The median hog producer earned \$275,903 from farm operations in 2010. This group includes all types

of hog operations, including those who produce pigs and those who only finish hogs. The average hog farm earned a rate of return on assets of 15.5%, up from -2.8% in 2009. Profits were not evenly distributed, as hog grow/finish operators did much better than the few small farrow-to-finish farms included.

<b>Hog Farms</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Median net farm income	\$55,524	\$7,415	\$275,903
Rate of return on assets	2.0%	-2.8%	15.5%
Net worth change	\$31,649	\$-49,790	\$318,766

Table 7: Hog Farm Returns

For the fourth consecutive year, farrow-to-finish producers lost money on each pound of pork produced. The farrow-to-finish farms in this group operate on a very small scale and are not a good barometer for industry trends. They lost \$8

per hundred pounds sold in 2010. Wean to finish operators in this group operate on a much larger scale. After losing on pork production for three consecutive years, they made a profit of over \$8 per hundred pounds sold in 2010.

<b>Hog Farm Highlights</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
No. farrow-to-finish ents.	28	17	16
Average number of sows	301	308	187
Pigs weaned per sow	20.56	21.61	16.98
Price received / cwt (carcass)	\$66.02	\$58.61	\$72.56
Cost of production / cwt	\$68.58	\$72.90	\$80.55
No. pig finishing enterprises	103	89	90
Number of pigs finished	7,243	8,744	8,161
Lb of feed per lb of gain	2.81	2.86	2.86
Price received / cwt (carcass)	\$65.22	\$58.28	\$73.08
Cost of production / cwt	\$77.13	\$69.08	\$65.90

Table 8: Hog Farm Highlights

## Beef Farms

There were 143 beef operations in this group of farms. Beef producers also returned to profitability in 2010, with a median net farm income of \$62,833. That compares to a net farm loss of -\$6,534 in 2009. This group includes beef cow-calf operations and cattle grow/finish

operations. The average beef farm earned an 11.7% ROA in 2010 with assets valued at adjusted cost basis. The average beef producer increased their net worth by over \$130,000, although much of this increase resulted from non-farm earnings and increased valuation of assets.

<b>Beef Farms</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Median net farm income	\$30,921	-6,534	62,883
Rate of return on assets	6.1%	0.6%	11.7%
Net worth change	\$46,200	\$38,766	\$131,584

Table 9: Beef Farm Returns

For the fifth consecutive year, cow-calf operations produced beef calves at a loss. After losing over \$200 per cow in 2009, they lost only \$25 in 2010. Like many livestock producers, these operators probably made much of their profit in 2010 from the cropping side of their operations rather than from calf production. Calf prices increased by \$15 per cwt from 2009 levels to decrease cow-calf losses.

After five consecutive years of losing money, cattle finishers returned to profitability in 2010. The average producer made over \$10.00 per hundred pounds of beef produced. Feed costs increased by over \$25 per head, but a sales price increase of over \$10 per hundredweight sold more than covered cost increases. As with cow-calf producers, much of this group's profit probably came from crop production.

<b>Beef Farm Highlights</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
No. of cow-calf enterprises	124	136	135
Number of cows	66	71	67
Calf weaning percentage	88.5	87.8	88.4
Calf sales price / cwt	\$101.21	\$98.96	\$114.99
Calf cost of production / cwt	\$116.50	\$127.10	\$111.95
No. beef finishing enterprises	87	88	79
Number of head finished	183	181	212
Average daily gain	2.29	2.33	2.44
Purchase cost per cwt.	\$105.23	\$97.29	\$112.61
Finished beef price / cwt	\$92.26	\$81.49	\$92.27
Finishing cost of production / cwt	\$98.05	\$84.73	\$86.84

Table 10: Beef Farm Highlights

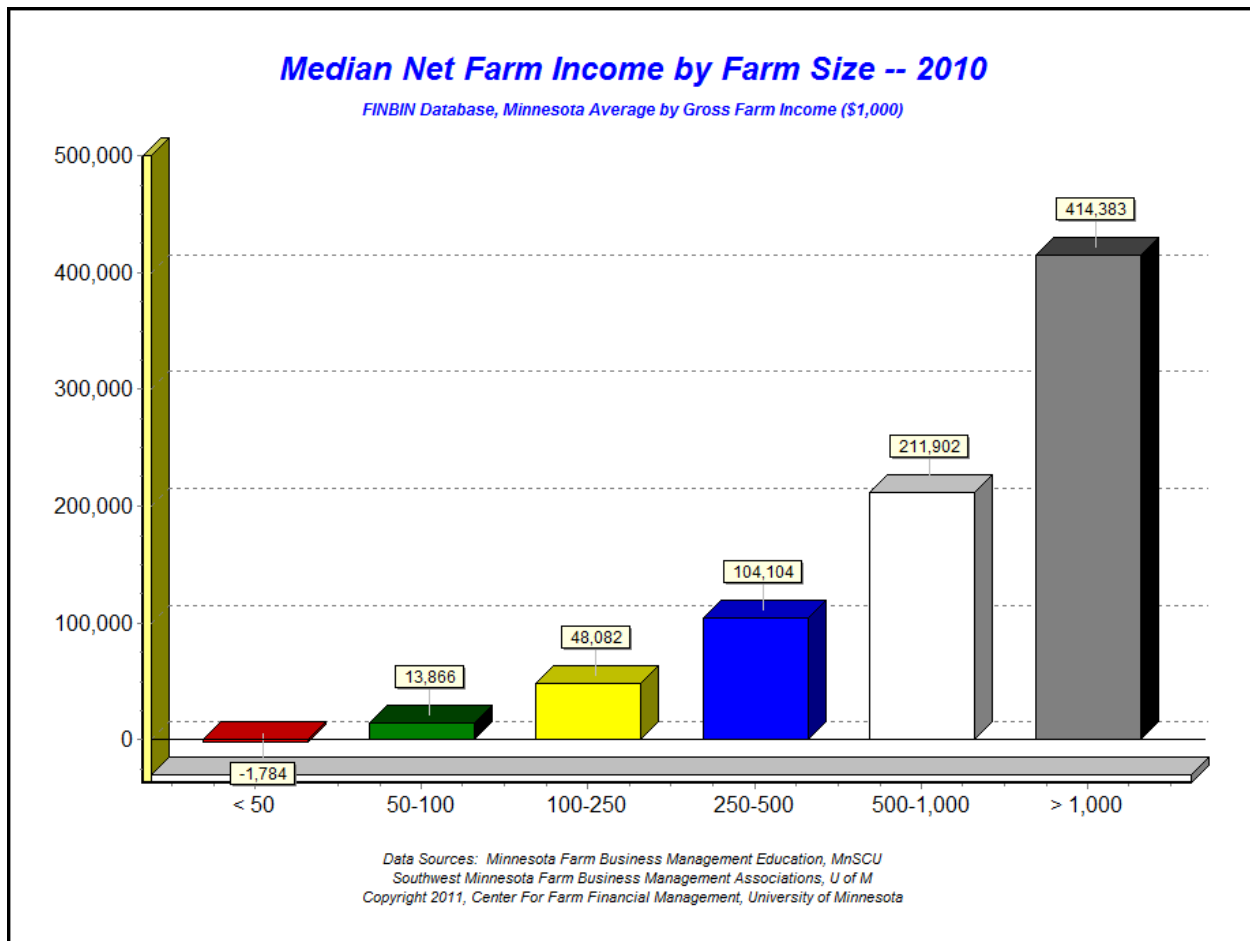


Figure 10: Net Farm Income by Farm Size

## Size of Farm

Figure 10 shows the disparity between the average earnings of the smallest farms and the largest farms in this group. The larger farms posted outstanding earnings in 2010. Four-hundred-thirty-six (436) of the 2,446 farms grossed over \$1,000,000. The median farm in this group netted \$414,383 in 2010 (Figure 10), up substantially from \$109,384 in 2009. It is important to note that the largest farms often support multiple families. Farms that grossed under \$500,000 supported 1.1 operators per farm, on average, while those that grossed over \$1,000,000 had 1.6 operators.

Mid-sized operators also made excellent profits in 2010. The median farm that grossed between 250,000 and \$1 million earned \$143,547 in 2010, up from \$57,124 in 2009.

Consistent with previous years, the smallest farms had very low or negative earnings. There were 217 farms that grossed \$100,000 or less in 2010. These farms include beginning farmers who may be farming with the help of parents, exiting farmers who are maintaining a connection to the farm, and part-time operators. The median farm in this group made a profit of \$7,238 in 2010. There are exceptions, but generally farms had to gross over \$100,000 before they made significant earnings. The smallest farms generally rely on non-farm sources for most of their income. The average farm that grossed less than \$100,000 earned \$45,039 in non-farm income in 2010.

While the larger farms earned higher net incomes than their smaller neighbors, they also had high investments in land, machinery and other capital. Figure 11 compares the rates of return on assets for these different size groups. Rates of return were up for all sizes of farm from 2009 levels. Returns consistently increased with size for these farms in 2010. This is a departure from 2008 and 2009, when the largest group averaged slightly lower returns on assets than the mid-sized farms.

It is likely that these results have as much to do with farm type as farm size. Many of the largest farms, based on gross sales, are specialized livestock operations, especially hog finishing operations, which returned to profitability in 2010 after experiencing losses in 2008 and 2009.

As in previous years, very small farms, as a group, earned very low to negative rates of return.

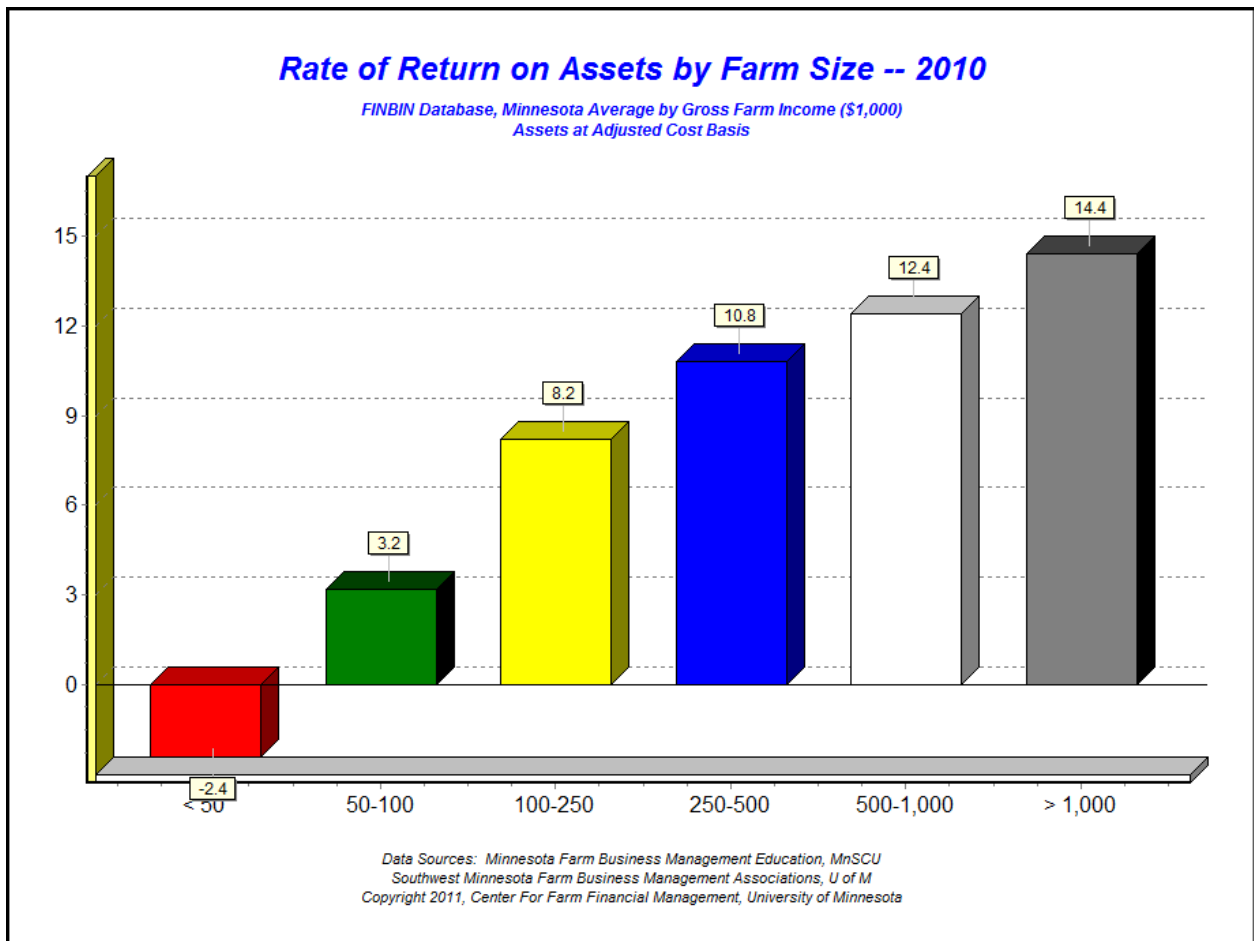


Figure 11: Rate of Return on Assets by Farm Size

## Family Expenses

Over one-quarter of the families included in the FINBIN database keep detailed family living records in addition to their farm financial records. The average of these farms in 2010 spent almost \$55,000 on family living expenses (Figure 12), an increase of 3.7% from 2009. Medical care and health insurance, when added together, were the highest single expenditure at \$8,812 for the average family, followed by food and meal expenses at \$7,283. Health related expenditures increased by 11% for these producers in 2010.

In addition, the average family paid income and social security taxes of \$12,959 and another \$5,331 on household furnishing, non-farm vehicles, and other non-farm non-real estate capital purchases. Including these expenditures, the average family had to earn \$73,000 from farm and non-farm sources to maintain their net worth. In 2010, the average farm family did accomplish this goal, resulting in a sizable increase in earned net worth or retained earnings.

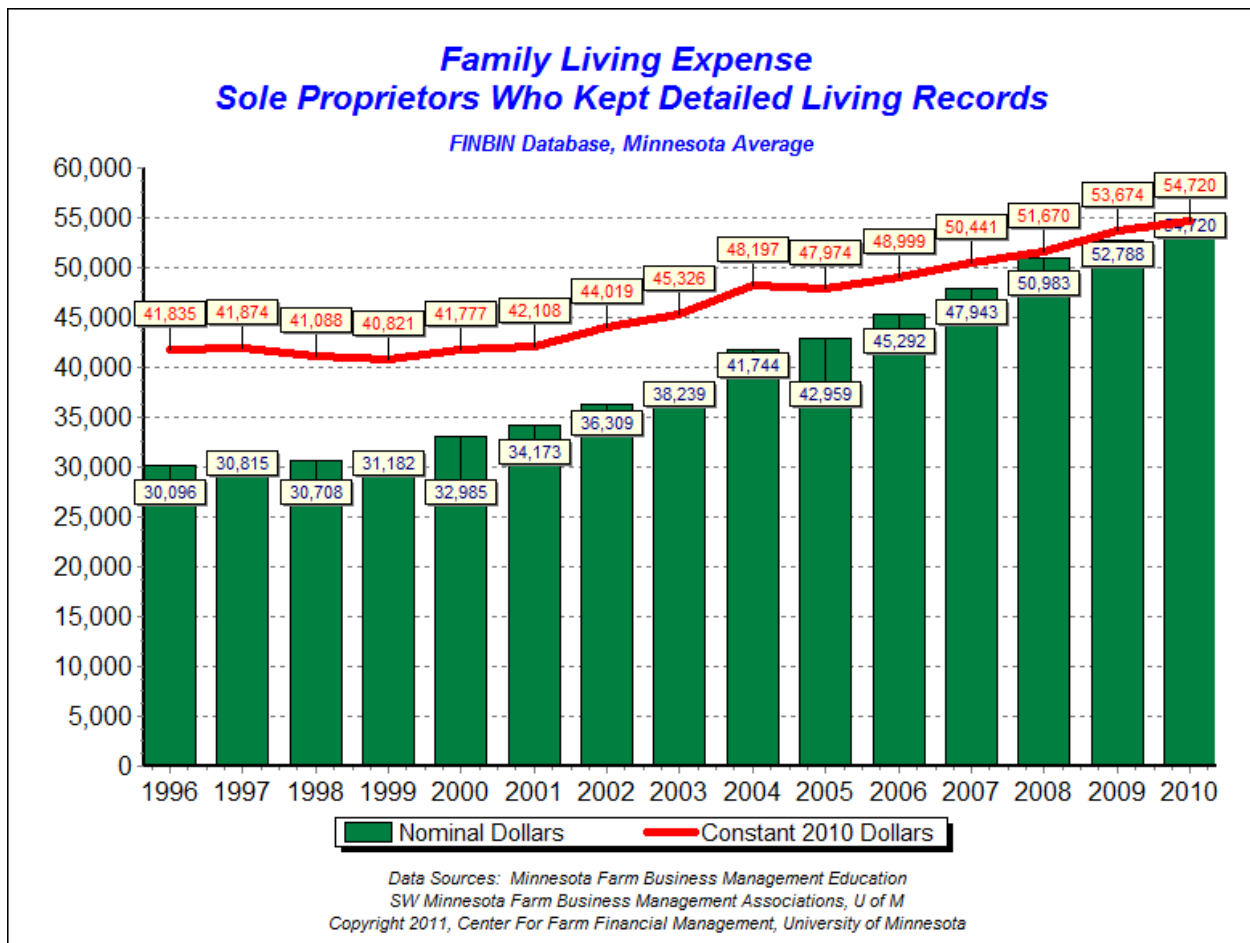


Figure 12: Family Living Expense

## Data Sources

The Minnesota data included in FINBIN is provided by producers who are participants in farm business management education programs throughout the state. The majority of the farms included (2,350) are participants in the Minnesota State Colleges and Universities (MnSCU) Farm Business Management programs.

The remaining farms (97) are members of the Southwest Minnesota Farm Business Management Association. More information is available on these programs at [www.fbm.mnscu.edu](http://www.fbm.mnscu.edu) and <http://swroc.cfans.umn.edu/ResearchandOutreach/FarmBusinessManagement>, respectively.

Sales Class	Number of Farms in FINBIN	Percent of Farms in FINBIN	Total Minnesota Farms	Percent of Minnesota Farms
< \$100,000	217	9%	58,301	72%
\$100,001 - 250,000	448	18%	9,399	12%
\$250,001 - 500,000	701	29%	6,500	8%
\$500,000 - 1,000,000	644	26%	4,473	6%
> \$1,000,000	436	18%	2,329	3%

Table 11: Size of Farms included in FINBIN vs. Minnesota Farm Population

FINBIN data is not survey data. Participating producers complete a comprehensive whole farm and enterprise analysis of their operation at the end of each year, with the help of a farm management educator. The farm financial data is processed through several levels of screening for accuracy and completeness. While it is impossible to verify accuracy of every data point, every effort is made to verify the integrity of each set of farm financial data included in the database.

The FINBIN database includes a substantial share of Minnesota commercial farms. Table 11

compares the farms included in FINBIN to all Minnesota farms based on USDA- Economic Research Service data for 2009. Based on these figures, FINBIN includes 13% of Minnesota farms that grossed over \$250,000 and 19% of all Minnesota farms that grossed over \$1,000,000. It must be stressed, however, that this is not a random sample of Minnesota farms. These farms choose to be involved in Farm Management programs and there may be characteristics of farms that participate in these educational programs that make them different from other farms in the state.

## Bibliography

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