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GRAPE FARM BUSINESS SUMMARY

GREAT LAKES REGION 1982

L.D. Putnam
G.B. White
D.G. Himelrick

Department of Agricultural Economics
New York State College of Agriculture and Life Sciences
A Statutory College of the State University
Cornell University, Ithaca, New York 14853

GREAT LAKES REGION GRAPE FARM BUSINESS

SUMMARY AND ANALYSIS, 1982

This is a summary and analysis of the 1982 farm business records from 16 commercial grape farms in the Great Lakes Region of New York. The summary was prepared by Linda D. Putnam and Gerald B. White, Department of Agricultural Economics, Cornell University; and David G. Himelrick, Great Lakes Regional Grape Specialist.

The main purpose of this study is to help the cooperators in this project and other grape growers to improve their skills as farm managers. The objective is to demonstrate the importance of good business records and to show how they can be used as a base for sound management decisions.

The summary and analysis presented in this publication should also be useful to agribusinessmen and agricultural teachers. However, caution should be exercised in using data from this book. These data were not obtained by using a random or representative sample of all grape farms in the Great Lakes Region. This publication, therefore, should not be used as an exact representation of the entire Great Lakes Region grape farm industry.

This report has been prepared for use in a systematic study of individual farm business operations.

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The 1982 Crop Year

Grape production in New York State was 154,000 tons in 1982, five percent above 1981 but well above the disastrous crop yields in 1977. The four counties which comprise the Great Lakes Grape Region (Chautauqua, Cattaraugus, Erie, and Niagara) had a one percent increase in total production. Prices were, in general, up from 1981. The average price paid to New York growers decreased from $243 to $230 per ton for all varieties. However, the price for Concords increased from $187 to $194 per ton.

	1977	1978	1979	1980	1981	1982
Tons of grapes produced, all varieties						
Great Lakes Region	62,086	114,350	104,036	114,036	93,553	94,452
State of New York	97,209	181,911	158,966	171,000	146,500	154,000
Tons Concord grapes produced						
Great Lakes Region	53,417	98,657	94,959	102,304	82,015	83,244
State of New York	67,407	125,243	119,875	123,121	103,077	105,840
Average price paid by wineries and processors						
Concords, NYS ($/ton)	224	217	204	196	187	194
All varieties, NYS ($/ton)	240	241	225	220	243	230

Source: New York Crop Reporting Service, Fruit, selected reports from 1978, 1979, 1980, 1981, 1982, and 1983.

A comparison of selected measures from the grape farm business summaries is shown below. Labor and management income per year was -$7,398 compared with -$17,005 in 1981. Much of this change can be attributed to a new method of assessing the cost of equity capital. (For further explanation, see the discussion of labor and management income on page 8.) Investment per acre increased and cash expense per acre decreased somewhat, a change in trend from previous years where there was a steady increase due to inflation.

COMPARISONS OF SELECTED MEASURES, 1978-1982

	1978	1979	1980	1981	1982
No. farms	13	12	10	15	16
Acres bearing grapes	87.2	85.8	84.6	71.0	67.7
Worker equivalent	3.9	3.5	3.6	2.8	2.8
Total farm investment	$278,396	$290,728	$328,696	$264,197	$271,267
Investment/bearing acre	$3,193	$3,388	$3,884	$3,719	$4,005
Tons grapes harv./worker	121	120	110	121	109
Grape yield/bear. acre (T)	5.5	4.9	4.7	4.7	4.5
Grape rec./bearing acre	$1,323	$1,138	$1,057	$1,085	$1,079
Average price/ton grapes	$245	$232	$225	$229	$238
Cash expense/grape acre	$856	$881	$983	$937	$926
Net cash farm income	$34,170	$34,317	$16,841	$19,680	$26,193
Labor & mgmt. inc./farm	$28,262	$413	$-20,292	$-17,005	$-7,398
Rate of return on equity capital including apprec.	16.7%	6.4%	1.1%	-.56%	.63%

Summary of the Farm Business

The first part of this publication summarizes the fruit business in a systematic, orderly manner. It provides an opportunity to study physical resources, capital investment, receipts, and expenses.

Physical Resources

Knowledge of what resources are employed and how they are combined is fundamental to sound business planning. This includes both the physical and financial resources of the business. Below are listed the physical resources for this group of grape farms.

FARM ORGANIZATION
16 Great Lakes Region Grape Farms, 1982

Item	My Farm	Average	Range
Labor:			
Number of operators	_____	1.0	1.0 - 1.0
Months of:			
Operator's	_____	8.30	1.0 - 12.0
Family paid	_____	3.16	0.0 - 15.0
Family unpaid	_____	2.06	0.0 - 11.0
Regular hired	_____	8.11	0.0 - 48.0
Seasonal hired	_____	11.72	0.5 - 49.0
Other	_____	0.31	0.0 - 5.0
Total	_____	33.67	5.1 - 114.0
Worker equivalent (total months ÷ 12)	_____	2.81	0.43 - 9.5
Land and Crops (acres)			
Bearing grapes:			
Harvested	_____	67.72	23.0 - 222.0
Not harvested	_____	0.01	0.0 - 0.1
Nonbearing grapes	_____	2.10	0.0 - 8.1
Total Acres in Grapes	_____	69.83	23.0 - 230.0
Total Crop Acres	_____	74.16	23.0 - 232.0
Crop Acres Rented	_____	3.73	0.0 - 28.0
Total Acres Owned	_____	118.46	0.0 - 320.0

Capital Investment

Management of the capital resources of a farm business is becoming increasingly important. To measure the complete financial progress of a farm, year to year changes in the capital structure must be considered. In this report, borrowed as well as owned capital is included, and the end-of-year farm inventory is used as the measure of capital investment.

FARM INVENTORY VALUES
16 Great Lakes Region Grape Farms

Item	My Farm 1/82	My Farm 1/83	Average per Farm 1/82	Average per Farm 1/83
Land & buildings	$_____	$_____	$211,088	$213,820
Livestock	_____	_____	375	510
Machinery & equipment	_____	_____	47,181	54,586
Supplies & crops	_____	_____	3,374	2,351
TOTAL FARM INVENTORIES	$_____	$_____	$262,018	$271,267

In many farm businesses, poor capital efficiency is a major cause of low profits. The following measures of capital efficiency will help evaluate overall capital management.

INVESTMENT ANALYSIS
16 Great Lakes Region Grape Farms, January 1983

Item	My Farm	Average per Farm
Total investment per worker equivalent	$_____	$96,678
Total investment per acre of bearing grapes	$_____	$ 4,005
Land & buildings per total acres owned	$_____	$ 1,805
Capital Turnover*	_____ yrs.	2.99 yrs.

* Calculated by dividing the total year-end investment by the total cash receipts for the year. Rapid capital turnover is more desirable than a slow rate of turnover when similar farm businesses are compared.

Sources of Income

A successful farm business requires a level of gross earnings great enough to pay all costs, both operating and overhead, and leave a margin for the operator's labor and management. Here we examine the sources of receipts for this group of grape farms.

FARM RECEIPTS
16 Great Lakes Region Grape Farms, 1982

Item	My Farm	Average per Farm	Percent of Total
Grapes:			
Primary market	$_____	$63,766	70.2
Distress market	_____	50	0.1
Total 1982 Payments Received	$_____	$63,816	70.3
Previous year's payments, certificates	_____	$16,196	17.8
Machine work & trucking	_____	4,295	4.7
Other crop receipts	_____	1,566	1.7
Work off farm	_____	1,751	1.9
Livestock & livestock product sales	_____	782	0.9
Rent	_____	839	0.9
Other	_____	1,616	1.8
Total Cash Receipts	$_____	$90,861	100.0
Total Cash Receipts	$_____	$90,861	
Less previous year's payments	- _____	- 16,196	
Plus anticipated 1982 payments	+ _____	+ 9,255	
Increase in crop & supply inventory	+ _____	+ 0	
Total Farm Receipts	$_____	$83,920	

Grape income accounted for 88 percent of cash receipts. An average of 306 tons of grapes per farm were harvested and sold. Cash grape receipts for the 1982 crop totaled $209 per ton.

Where the Money Went

With the large amount of cash flowing through a farm business today, it is important that the farm operator study expenses closely.

FARM EXPENSES
16 Great Lakes Region Grape Farms, 1982

Item	My Farm	Average per Farm	Expense per acre of grapes (total)
Hired labor	$_____	$24,896	$ 357
Machine hire	_____	5,145	74
Machine repair & farm share of auto expense	_____	3,939	56
Gasoline & oil	_____	3,126	45
Spray	_____	2,884	41
Fertilizer	_____	3,638	52
Seeds & grape roots (replacements)	_____	93	1
Posts and wire	_____	645	9
Other crop expense	_____	2,084	30
Real estate upkeep	_____	476	7
Taxes	_____	3,750	54
Insurance	_____	1,764	25
Rent	_____	519	7
Utilities	_____	569	8
Interest paid	_____	9,477	136
Miscellaneous	_____	1,664	24
TOTAL CASH & OPERATING EXPENSES	$_____	$64,669	$ 926
Machinery depreciation	_____	6,063	87
Real estate depreciation	_____	5,051	72
Decrease in supply inventory	_____	1,023	15
Unpaid family labor	_____	1,031	15
Interest on equity capital @ 5%	_____	12,459	178
TOTAL FARM EXPENSES	$_____	$90,296	$1,293

Machinery and Real Estate Inventory Calculations

Capital outlays for machinery, buildings and land improvements (including drainage and vineyard establishment) usually occur in large, uneven amounts, but depreciate gradually over a period of time. Depreciation is the annual charge for the use of the machinery complement and real estate improvements in production. Depreciation was taken from the farm depreciation schedule. Appreciation, which results from inflation, is calculated as a residual.

MACHINERY AND EQUIPMENT INVENTORY
16 Great Lakes Region Grape Farms, 1982

Item	My Farm	Average
End of year market value	(A)$_____	$54,586
Beginning market value	$_____	$ 47,181
Plus machinery purchases	+_____	+ 7,578
Less machinery sales	-_____	- 408
Less depreciation*	-_____	- 6,063
Net end investment	(B)$_____	48,288
APPRECIATION [(A)-(B)]	$_____	$ 6,298

The average machinery depreciation of $6,063 is 11 percent of the beginning inventory plus machinery purchases.

REAL ESTATE INVENTORY
16 Great Lakes Region Grape Farms, 1982

Item	My Farm	Average
End of year market value	(A)$_____	$213,820
Beginning market value	$_____	$211,088
Plus cost of new real estate	+_____	+ 6,947
Less real estate sold	-_____	- 147
Less depreciation*	-_____	- 5,051
Net end investment	(B) _____	212,837
Appreciation [(A)-(B)]	$_____	$ 983

*Depreciation (excluding additional first year depreciation) from tax records.

Financial Summary

The net returns for any business can be measured in several different ways. Each measure calculates the net return to a selected resource or group of resources such as labor or capital. Some of the common farm business measures are given below.

Net cash farm income reflects the cash available from the year's operation of the farm business for family living, payments on debt principal, and new purchases or investments. A family may have had additional cash available if members had nonfarm income.

NET CASH FARM INCOME
16 Great Lakes Region Grape Farms, 1982

Item	My Farm	Average per Farm
Total Cash Receipts	$_____	$90,861
Total Cash Operating Expenses	_____	64,669
NET CASH FARM INCOME	$_____	$26,192
Family Living Expenses	_____	
CASH FOR INVESTMENT AND PRINCIPAL PAYMENTS ON DEBTS	$_____	

Labor and management income is the return to the farm operator for labor and management. It is the measure most commonly used when comparing the profitability of farm businesses. Labor and management income is the amount left after paying all cash operating expenses and deducting charges for depreciation, unpaid labor, interest on equity capital and losses in fruit and supply inventories. The business is charged a five percent real rate of interest or opportunity cost for the use of equity capital. This real rate of interest represents the long term average rate of return that a grower could expect to earn on investments with comparable risks to farming, in an economy with little or no inflation.

Labor and management income; labor, management and ownership income; and return on equity capital are computed in the following three tables. The computations are done by two different methods. These methods are as follows:

Method (1) Total receipts is the sum of total cash receipts minus grape payments from previous years plus anticipated 1982 payments plus or minus the increase or decrease in the crop and supply inventory. This method is the one which has been used in the most recent years in Cornell grape farm business summaries.

Method (2) Total receipts is the sum of total cash receipts in the calendar year (including grape payments from previous years) plus or minus the increase or decrease in crop and supply inventory. Using this method, net income did not depend on growers estimates of future receipts for the current crop.

LABOR AND MANAGEMENT INCOME
16 Great Lakes Region Grape Farms, 1982

Item	My Farm	Average per Farm [Method 1]	Average per Farm [Method 2]
Total Farm Receipts	$_____	$82,898	$89,839
Total Farm Expenses	_____	90,296	90,296
LABOR & MANAGEMENT INCOME PER FARM	$_____	(-)$ 7,398	(-)$ 457

It is common to compute labor and management return per operator as well as per farm because most studies include some farms with more than one operator. However, the average number of operators for 1982 was 1.0; therefore labor and management income per operator was the same as labor and management income per farm.

In addition to labor and management income, the owner-operator of a farm business should receive income for his capital investment in the business. He receives this income in the form of interest on equity in the business and real estate and machinery appreciation. These three "ownership income" items are added to labor and management income to determine labor, management and ownership income. This indicates the total return the owner-operator receives for owning and operating the business.

The growers who participated in this summary submitted balance sheets and net worth or equity capital was easily computed. Average equity capital was estimated as $249,172 per farm.

LABOR, MANAGEMENT AND OWNERSHIP INCOME
16 Great Lakes Region Grape Farms, 1982

Item	My Farm	Average per Farm [Method 1]	Average per Farm [Method 2]
Labor & Management Income Per Farm	$_____	(-)$ 7,398	(-)$ 457
Add: Real Estate Appreciation	_____	983	983
Add: Machinery Appreciation	_____	6,298	6,298
Add: Interest on Equity Capital @ 5%	_____	12,459	12,459
LABOR, MANAGEMENT & OWNERSHIP INCOME PER FARM	$_____	$12,342	$19,283
PER OPERATOR	$_____	$12,342	$19,283

Return on equity capital can be computed with or without real estate appreciation. To calculate return on equity capital (including real estate appreciation) the value of operator's labor and management is deducted from labor, management and ownership income. This return to equity capital is divided by the owner's equity investment in the business to compute the rate of return on equity capital. Owner's equity investment used here is total end of year farm inventories less total farm liabilities.

RETURN ON EQUITY CAPITAL
16 Great Lakes Region Grape Farms, 1982

Item	My Farm	Average per Farm [Method 1]	Average per Farm [Method 2]
Labor & Management & Ownership Income	$_____	$12,342	$19,283
Less: Value of Operator's Labor & Management*	_____	10,772	10,772
Return on Equity Capital	_____	$ 1,570	$ 8,511
Rate of Return on Equity Capital (equity capital = $249,172)	_____%	.63%	3.42%

* Values estimated at $750 per month for labor and 5 percent of cash receipts for management.

Farm Family Financial Situation

The financial situation is an important part of the grape farm business summary. It has a direct affect on current cash outflow and future capital investment decisions. A grower may have a good labor income, but a high debt load may seriously restrict his management flexibility.

The balance sheet of the financial situation is provided below.

FARM FAMILY FINANCIAL SITUATION
16 Great Lakes Region Grape Farms, 1982

Item	My Farm	Average per Farm
Assets		
Total farm inventory	$_____	$271,267
Accounts receivable	_____	26,130
Co-op investment	_____	25,730
Cash & checking account	_____	12,147
TOTAL FARM ASSETS	$_____	$335,274
Liabilities		
Real estate mortgage	$_____	$ 55,076
Liens & secured loans	_____	14,822
Installment contracts	_____	6,378
Accounts payable	_____	3,458
Other farm debt	_____	6,368
TOTAL FARM LIABILITIES	$_____	$ 86,102
FARM NET WORTH (Farm assets less liabilities)	$_____	$249,172
Percent Equity (Farm net worth ÷ total farm assets)	_____%	74.3%
Farm Debt Per Worker Equivalent	$_____	$ 30,686
Farm Debt per Bearing Acre of Grapes	$_____	$ 1,271

Payment ability is the most important consideration in determining if and how proposed investments should be financed. The farm business must produce enough cash income to meet operating expenses, to cover family living expenses and to make debt payments. The average farm in this study had a net cash flow, excluding interest paid, of $35,670. This amount was available for family living expenses, debt payments, and cash for capital investments during the year.

Analysis of the Farm Business

Some of the business factors which affect profits and which a farmer can control to some degree are: (1) size of enterprise, (2) labor efficiency, (3) yields, and (4) price.

A comparison of your farm with the averages of these factors for these farms can provide valuable clues to the strong and weak points of an individual grape farm business.

SELECTED FARM BUSINESS MEASURES
16 Great Lakes Region Grape Farms, 1982

Item	Average per Farm	My Farm
Measures of Size		
1. Acres in bearing grapes	68.0	_____
2. Acres of grapes harvested	68.0	_____
3. Acres in nonbearing grapes	2.1	_____
4. Worker equivalent	2.8	_____
5. Tons of grapes harvested	306.4	_____
6. Tons of grapes grown	306.5	_____
Labor Efficiency		
1. Acres in grapes harvested per worker	24.1	_____
2. Tons of grapes harvested per worker	109.2	_____
Production Factors		
1. Grape yield per acre (tons) of bearing grapes	4.5	_____
2. Grape receipts* per acre of bearing grapes	$1,079	$_____
Price		
1. Average price per ton of grapes sold**	$ 238	$_____

* Cash receipts from sale of grapes plus anticipated payments from current grape crop.

**Grape receipts ÷ tons of grapes harvested.

Cost Control

Power and machinery costs were major expenses on these grape farms. Net operating and investment costs averaged $17,049.

POWER AND MACHINERY COSTS
16 Great Lakes Region Grape Farms, 1982

Item	Average per Farm	My Farm
Machinery depreciation	$ 6,063	$_____
Interest at 5% average inventory	2,544	_____
Gas & oil	3,126	_____
Auto	284	_____
Truck, tractor & equipment repair	3,655	_____
Machine hire	5,145	_____
Utilities	570	_____
Total Machinery Costs	$21,387	$_____
Income from machine work	- 4,294	_____
Gasoline tax refund	- 44	_____
NET MACHINERY COSTS	$17,049	$_____
Net Machinery Costs:		
Per acre of bearing grapes	$252	$_____
Per worker equivalent	$6,076	$_____
Per ton of grapes harvested	$56	$_____

Since power and machinery costs represent a substantial portion of total costs, efficiency in use is an important factor affecting profitability of the business. Net machinery costs per acre of bearing grapes averaged $252.

Most farm operators justify major machinery purchases as a way to save labor and increase productivity. How well labor and machinery are combined has an important bearing on farm profits.

LABOR AND MACHINERY COSTS
16 Great Lakes Region Grape Farms, 1982

Item	Average per Farm	My Farm
Value of operator's labor*	$ 6,229	$_____
Hired labor	24,896	_____
Unpaid family labor	1,031	_____
TOTAL LABOR COSTS	$32,156	$_____
Total net machinery cost	17,049	_____
TOTAL LABOR & MACHINERY COSTS	$49,205	$_____
Labor cost:		
Per worker equivalent	$11,460	$_____
Per acre of bearing grapes	$475	$_____
Per ton of grapes harvested	$105	$_____
Labor & machinery cost:		
Per worker equivalent	$17,536	$_____
Per acre of bearing grapes	$726	$_____
Per ton of grapes harvested	$161	$_____

* Valued at $750 per month for operator's labor (value of management and owned capital excluded).

MISCELLANEOUS COST MEASURES
16 Great Lakes Region Grape Farms, 1982

Item	Average per Farm	My Farm
Crop expense per acre of bearing grapes**	$138	$_____
Spray expense per acre of bearing grapes	43	$_____
Taxes per total acres owned	32	$_____
Taxes per $1,000 of end real estate inventory	18	$_____
Taxes & insurance per $1,000 real estate inventory	26	$_____

**Includes spray, fertilizer, replacement vines, posts and wire and other crop expenses.

Capital and Capital Efficiency Factors

The average investment in the farm business was $271,267. About 79 percent of this total is represented by vineyards, land and buildings.

CAPITAL INVESTMENT AND CAPITAL EFFICIENCY FACTORS
16 Great Lakes Region Grape Farms, 1982

Item	Average per Farm	Percent of Total	My Farm
Land & buildings	$213,820	78.8	$_____
Livestock	510	0.2	_____
Machinery & equipment	54,586	20.1	_____
Supplies	2,351	0.9	_____
Total Farm Inventories	$271,267	100.0	$_____
Worker equivalent	2.8		_____
Investment per worker equiv.	$96,678		$_____
Acres of bearing grapes	67.7		_____
Machinery & equipment investment per acre of bearing grapes	$806		$_____
Land & building investment per acre owned	$1,805		$_____
Total farm investment per acre of bearing grapes	$4,005		$_____
Total farm investment per ton of grapes sold	$885		$_____
Capital turnover (years for cash receipts to equal capital)	2.99		_____

Investment costs such as depreciation and interest are part of the total cost of operating a farm business. Obtaining efficiency in the use of capital, as measured by investment relative to productive capacity and income, is an important part of managing a farm. The factors calculated in the table above can help a farmer gauge the soundness of his capital investment. On these farms, investment per acre of bearing grapes ranged from $727 to $8,788.

1982 Production and Marketings

ACRES IN VINES AND MARKETINGS
16 Great Lakes Region Grape Farms, 1982

Item	Number of Growers Reporting	Average of All Growers
Bearing vines:		
Harvested, sold in primary market	16	67.66
Harvested, sold in distress market	1	0.06
Not harvested	1	0.01
Total Bearing	16	67.73
Nonbearing Vines	5	2.10
Total Acres in Vines		69.83

Total acres in vines averaged 69.83 acres per farm. Ninety-seven percent of this total acreage produced a crop which was harvested and sold in the growers' primary or usual markets. The growers reported about 0.1 percent of the acreage in vines was harvested and sold in the open market. One grower had sales in the open market.

GRAPES HARVESTED & SOLD IN THE USUAL MARKETS
16 Great Lakes Region Grape Farms, 1982

Variety	Acres	Tons	Average Yield/Acre
Concord	48.6	231.2	4.8 Tn.
All other varieties	19.0	74.9	3.9 Tn.
Total	67.6	306.1	4.5 Tn.

Concords were an important variety on all farms. This variety accounted for 72 percent of the acreage harvested and 76 percent of the tonnage. The average yield of Concords was 4.8 tons per acre, compared with 3.9 tons per acre for all other varieties.

Array of Business Factors

Vineyardists in the management program can determine how their business stands relative to the others in the summary by encircling the factor measurement for their farm in each column of the table below.

ARRAY OF SELECTED BUSINESS FACTORS
16 Great Lakes Region Grape Farms, 1982

Note: each column is independent of the others. Do not read across.

Grape Acres Harv.	Tons Grapes Harv.	Worker Equiv.	Tons Grapes Harv./ Worker	Tons Grapes/ Grape Acre	Total Farm Invest./ Grape Acre	Grape Receipts/ Grape Acre	Total Cash Oper. Exp./ Total Crop Acres
222	983	9.5	303	11.1	8,788	2,582	2,019
134	623	4.8	232	5.9	8,244	1,178	1,344
110	531	4.3	165	5.5	7,252	1,177	1,059
82	428	3.7	132	5.5	5,063	1,156	1,008
79	406	3.6	131	5.4	5,014	1,130	999
76	374	2.7	127	4.9	4,910	1,117	993
60	290	2.7	126	4.9	4,345	1,114	987
48	284	2.6	115	4.9	4,094	1,054	934
45	222	2.5	111	4.8	3,988	1,026	864
42	220	2.3	109	4.7	3,892	990	858
41	193	1.7	104	4.7	3,648	969	726
38	182	1.6	103	4.6	3,157	968	708
30	165	1.1	100	4.4	2,985	960	675
28	141	1.0	72	4.3	2,930	895	618
26	129	.7	62	3.9	2,115	788	618
23	127	.4	61	3.6	727	687	580

Custom Harvesting Enterprise

Four of the farms in this summary had custom harvesting operations. The receipts, expenses, and machinery used were allocated to this enterprise, and are not included in the computations in the preceding pages.

CUSTOM HARVESTING ENTERPRISE
Four Great Lakes Region Grape Farms, 1982

		Average per Farm	Range
Receipts		$10,987	$29 - 25,537
Expenses			
Hired labor	$1,854		
Machine hire	689		
Machine repair & farm share of auto expense	1,150		
Gasoline & oil	1,030		
Real estate upkeep	0		
Insurance	192		
Utilities	85		
Interest paid	264		
Miscellaneous	216		
TOTAL CASH EXPENSES	$5,480		
Machinery depreciation	1,244		
TOTAL EXPENSES		$ 6,724	
Net Income for Enterprise		$ 4,263	$-2,569 - 12,080

The average net income was $4,263. These growers had investments in machinery of $20,161 allocated to custom harvesting. This is not the full value of all machinery used in custom harvesting, but rather it reflects these growers' estimation of what percentage of their machinery should be allocated to the enterprise. The same principle is used for the allocation of other expenses.