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**2008 Michigan Swine Business Analysis
Summary**

Eric Wittenberg
and
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Staff Paper 2009-12

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2008 Michigan TelFarm and Farm Credit Services Data
Staff Paper No. 09-12

by

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and
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Executive Summary

This report summarizes the financial and production records of 11 Michigan swine farms. To be included, the farms must have produced at least 50 percent of gross cash farm income from one or a combination of fat hogs, feeder pigs and cull breeding hogs sales. The records came from Michigan State University's TelFarm project and the Farm Credit Service system in Michigan. The values were pooled into averages for reporting purposes.

Farm records were included if a farm financial summary was completed on 2008 data including beginning and ending balance sheets, plus income and expenses. The data were checked to verify that cash discrepancy was less than 10% of gross cash inflow and that debt discrepancy was less than \$1,000. While considerable variation in the data exists, average values are reported in the summary tables below.

Summary of Results

The average size of a farrow to finish swine farm contained in this 2008 business analysis, averaged 324 sows, 308 acres owned and 950 acres cropped, Table 1. Additional data on farm characteristics indicated that the average weight for a finished hog was 265 pound and the average price was \$47.23 per hundredweight.

Table 1. Average Michigan Swine Farm Characteristics, 2004-2008

	2004	2005	2006	2007	2008
Average number of sows	178	161	161	N/A	324
Total acres owned	587	401	292	355	308
Total crop acres	919	536	555	664	950
Average weight of hogs sold (lbs.)	256	254	250	258	265
Average price/cwt.	51.77	54.90	46.34	45.86	47.23
Number of farms	12	11	14	12	11

Net farm income (NFI) is the amount remaining after all cash farm expenses and depreciation have been subtracted from net cash farm income and inventory changes have been recognized. The net farm income value is the return to operator unpaid management, labor and equity capital invested. Income statement data presented in Table 2 indicates that net farm income in 2008 averaged \$41,184. This average somewhat obscures a very large range of net farm income values. The range was a negative \$235,693 to \$295,448 and the standard deviation was \$158,417.

Gross cash farm income averaged \$1,051,242 in 2008. The largest components of this revenue are farrow to finished raised pigs sales which averaged \$265,269, finished feeder hogs sales which averaged \$114,718 and weaning to finished hogs sales which averaged \$125,661. Government payments averaged \$24,171 per farm in 2008.

Average total cash expenses were \$989,492 in 2008 and average net cash farm income was \$61,750. Inventory levels increased and averaged \$27,742 per farm. Crops, feeds, market livestock, and accounts receivable increased while prepaid expenses, supplies and accounts payable decreased. Depreciation averaged a negative \$48,308 in 2008.

Table 2. Average Swine Farm Income Statement, 2004-2008

	2004	2005	2006	2007	2008
	(\$)	(\$)	(\$)	(\$)	(\$)
Gross cash farm income	1,089,291	842,919	728,924	911,706	1,051,242
- Total cash expense	<u>892,506</u>	<u>681,217</u>	<u>612,742</u>	<u>830,744</u>	<u>989,492</u>
= Net cash farm income	196,785	161,703	116,182	80,962	61,750
+ Inventory change	79,912	5,050	48,017	-18,929	27,742
+ Depreciation and capital adjustments	<u>-78,960</u>	<u>-73,922</u>	<u>-59,548</u>	<u>-57,203</u>	<u>-48,308</u>
= Net farm income	197,737	92,830	104,651	4,830	41,184

Table 3 compares profitability for the years 2004 - 2008 with assets valued at cost. Profitability indicators calculated using assets valued at cost can be used to compare the same farm over time. The average 2008 swine farm ROA was 3.1 percent. Return on equity averaged a negative 1.9 percent. Operating profit margin measures the dollars of profit generated per dollar of revenue. In 2008, the OPM was 6.4 percent. Asset turnover measures the efficiency with which farm assets generate revenue. In 2008, this ratio was 49.3 percent. All these profitability measures indicate that on the average, 2008 was a profitable year financially.

Four key financial performance indicators are presented in Table 3. The rate of return on assets (ROA) is calculated as if the farm has no debt. ROA indicates the farm earnings, after subtracting out an allowance for unpaid operator labor and management, as a percentage of invested assets. ROA provides the key summary performance indicator for your farm. By multiplying the operating profit margin by the asset turnover rate, the ROA is determined. The ROA for 2008 averaged 3.1 percent.

The rate of return on equity (ROE), expressed as a percentage of own equity capital, represents the farm earnings after interest payments. Ideally the ROE should be higher than the ROA indicating that profit is being made on borrowed money. This was not the case in 2008. ROE performance for 2008 averaged a negative 1.9 percent. This farm summary indicates that these farms were losing money on borrowed money in 2008.

Table 3. Average Swine Farm Profitability Indicators, 2004-2008

	2004	2005	2006	2007	2008
	(%)	(%)	(%)	(%)	(%)
Rate of return on assets*	16.1	7.0	9.9	0.2	3.1
Rate of return on equity	52.4	11.8	18.0	-14.2	-1.9
Operating profit margin	25.3	13.8	18.4	0.5	6.4
Asset turnover rate*	63.5	50.8	53.9	46.2	49.3

* Assets valued at **cost** value (rather than market value).

Table 4 compares profitability measures across the years 2004 - 2008 valued at market. The market value approach includes the impact of price appreciation (inflation) of the asset base overtime. Land is the main reason for price appreciation and reflects a form of income. Financial performance indicators like ROA can be looked upon in this comparison as the “opportunity cost of capital” of farming versus alternative investments. Market value for assets is more appropriate when comparing across different farms (while cost is more appropriate to compare the same farm across time).

The average return on assets (ROA) for 2008 was 1.9 percent. Return on equity (ROE) for 2008 was a negative 0.5 percent. Operating profit margin (OPM) measures the dollars of profit generated per dollar of revenue. In 2008 the OPM was 6.7 percent. In 2008 these swine farms are generating a little profit per dollar of revenue.

Asset turnover ratio measures the efficiency with which farm assets generate revenue. In 2008, the asset turnover ratio was 27.9 percent. This was a slight increase when compared with 2007. Higher prices for production or lower total asset value will increase ATO. This is a slight increase of 2 percent, meaning that the farm assets generated more dollars per dollar invested in farm assets. The trend with respect to profitability in 2008 was poor.

Table 4. Average Swine Farm Profitability Indicators, 2003-2007

	2004	2005	2006	2007	2008
	(%)	(%)	(%)	(%)	(%)
Rate of return on assets*	10.1	7.7	7.9	4.0	1.9
Rate of return on equity	13.9	9.8	9.5	2.9	-0.5
Operating profit margin	32.4	28.4	26.7	15.6	6.7
Asset turnover rate*	31.0	27.2	29.6	25.4	27.9

* Assets valued at **market** value (rather than cost value).

Table 5

Crop Production and Marketing Summary

2008 MI Swine

(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	11
Acreage Summary	
Total acres owned	308
Total crop acres	950
Crop acres owned	316
Crop acres cash rented	513
Crop acres share rented	120
Total pasture acres	-
Percent crop acres owned	33 %
Average Price Received (Cash Sales Only)	
Corn per bushel	3.59
Soybeans per bushel	10.14
Average Yield Per Acre	

Table 6

Farm Income Statement

2008 MI Swine

(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	11
Cash Farm Income	
Beans, Green	3,958
Beans, Navy	23,801
Cordwood	112
Corn	109,991
Corn, Seed	14,938
Hay, Mixed	2,108
Soybeans	94,452
Straw	600
Sugar Beets	20,526
Wheat, Winter	23,349
Beef Cow-Calf, Beef Calves	229
Beef Yearlings	128,277
Dairy Finishing	238
Hogs, Farrow To Finish, Raised Ho	265,269
Hogs, Feeder Pig Prod, Feeder Pig	33,322
Hogs, Finish Feeder Pigs	114,718
Sheep, Market Lamb Prod, Mkt Lamb	3,654
Hogs, Weaning to Finish	125,661
Cull breeding livestock	10,063
Misc. livestock income	2,734
LDP payments	2,112
CRP payments	3,395
Other government payments	18,664
Custom work income	15,424
Patronage dividends, cash	2,889
Insurance income	14,609
Other farm income	16,150
Gross Cash Farm Income	1,051,242

Table 6

Farm Income Statement (Continued)

2008 MI Swine

(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	11
Cash Farm Expense	
Seed	40,857
Fertilizer	51,183
Crop chemicals	32,181
Crop insurance	7,461
Drying expense	11,791
Crop marketing	979
Crop miscellaneous	11,275
Feeder livestock purchase	169,633
Purchased feed	274,245
Breeding fees	2,234
Veterinary	13,656
Supplies	2,746
Livestock marketing	10,201
Livestock miscellaneous	849
Interest	49,349
Packaging and supplies	613
Fuel & oil	38,203
Repairs	37,816
Custom hire	33,085
Hired labor	58,129
Land rent	43,097
Machinery leases	7,155
Building leases	4,424
Real estate taxes	9,625
Personal property taxes	67
Farm insurance	16,067
Utilities	34,708
Dues & professional fees	8,003
Miscellaneous	19,859
Total cash expense	989,492
Net cash farm income	61,750
Inventory Changes	
Prepays and supplies	4,685
Accounts receivable	11,759
Hedging accounts	3,096
Other current assets	-203
Crops and feed	15,991
Market livestock	-14,161
Breeding livestock	-2,868
Other assets	10,349
Accounts payable	-1,451
Accrued interest	545
Total inventory change	27,742
Net operating profit	89,492
Depreciation	
Machinery and equipment	-31,207
Titled vehicles	-
Buildings and improvements	-17,101
Total depreciation	-48,308
Net farm income from operations	41,184
Gain or loss on capital sales	-
Net farm income	41,184

Table 7

Inventory Changes
2008 MI Swine
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	11
Net cash farm income	61,750
Crops and Feed	
Ending inventory	314,920
Beginning inventory	298,929
Inventory change	15,991
Market Livestock	
Ending inventory	192,740
Beginning inventory	206,901
Inventory change	-14,161
Accts Receivable	
Ending inventory	25,710
Beginning inventory	13,951
Inventory change	11,759
Prepaid Expenses and Supplies	
Ending inventory	47,182
Beginning inventory	42,498
Inventory change	4,685
Hedging Activities	
Ending inventory	4,111
Withdrawals	2,009
Beginning inventory	3,025
Deposits	-
Gain or loss	3,096
Other Current Assets	
Ending inventory	6,010
Beginning inventory	6,212
Inventory change	-203
Breeding Livestock	
Ending inventory	45,438
Capital sales	2,119
Beginning inventory	44,139
Capital purchases	6,286
Depreciation, capital adjust	-2,868
Other Capital Assets	
Ending inventory	21,328
Capital sales	25,098
Beginning inventory	30,362
Capital purchases	5,715
Depreciation, capital adjust	10,349
Accounts Payable	
Beginning inventory	16,487
Ending inventory	17,939
Inventory change	-1,451
Accrued Interest	
Beginning inventory	10,333
Ending inventory	9,788
Inventory change	545
Total inventory change	27,742
Net operating profit	89,492

Table 8

Depreciation
2008 MI Swine

(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	11
Net operating profit	89,492
Machinery and Equipment	
Ending inventory	138,505
Capital sales	4,792
Beginning inventory	132,477
Capital purchases	42,028
Depreciation, capital adjust.	-31,207
Titled Vehicles	
Ending inventory	-
Capital sales	-
Beginning inventory	-
Capital purchases	-
Depreciation, capital adjust.	-
Buildings and Improvements	
Ending inventory	116,330
Capital sales	-
Beginning inventory	94,553
Capital purchases	38,878
Depreciation, capital adjust.	-17,101
Total depreciation, capital adj.	-48,308
Net farm income from operations	41,184
Gain or loss on capital sales	-
Net farm income	41,184

Table 9

Profitability Measures

2008 MI Swine

(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	11
Profitability (assets valued at cost)	
Net farm income from operations	41,184
Rate of return on assets	3.1 %
Rate of return on equity	-1.9 %
Operating profit margin	6.4 %
Asset turnover rate	49.3 %
Farm interest expense	48,804
Value of operator lbr and mgmt.	49,862
Return on farm assets	40,127
Average farm assets	1,281,264
Return on farm equity	-8,677
Average farm equity	453,731
Value of farm production	631,531
	Avg. Of All Farms
Number of farms	11
Profitability (assets valued at market)	
Net farm income from operations	43,089
Rate of return on assets	1.9 %
Rate of return on equity	-0.5 %
Operating profit margin	6.7 %
Asset turnover rate	27.9 %
Farm interest expense	48,804
Value of operator lbr and mgmt.	49,862
Return on farm assets	42,032
Average farm assets	2,260,489
Return on farm equity	-6,773
Average farm equity	1,432,955
Value of farm production	631,531

Table 10

Liquidity & Repayment Capacity Measures

2008 MI Swine

(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	11
Liquidity	
Current ratio	2.75
Working capital	396,247
Working capital to gross inc	36.8 %
Current assets	622,875
Current liabilities	226,628
Gross revenues (accrual)	1,075,408
Repayment capacity	
Net farm income from operations	41,184
Depreciation	48,308
Personal income	11,031
Family living/owner withdrawals	-41,004
Payments on personal debt	-3,103
Income taxes paid	-2,462
Interest on term debt	30,330
Capital debt repayment capacity	84,285
Scheduled term debt payments	-81,083
Capital debt repayment margin	3,201
Cash replacement allowance	-20,978
Replacement margin	-17,777
Term debt coverage ratio	1.04
Replacement coverage ratio	0.83

Table 11

Balance Sheet at Cost Values

2008 MI Swine

(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms	
Number of farms	11	
	Beginning	Ending
Assets		
Current Farm Assets		
Cash and checking balance	22,398	32,201
Prepaid expenses & supplies	42,498	47,182
Growing crops	6,121	5,919
Accounts receivable	13,951	25,710
Hedging accounts	3,025	4,111
Crops held for sale or feed	298,929	314,920
Crops under government loan	0	0
Market livestock held for sale	206,901	192,740
Other current assets	91	91
Total current farm assets	593,914	622,875
Intermediate Farm Assets		
Breeding livestock	44,139	45,438
Machinery and equipment	132,477	138,505
Titled vehicles	0	0
Other intermediate assets	28,558	19,524
Total intermediate farm assets	205,173	203,467
Long Term Farm Assets		
Farm land	355,755	366,852
Buildings and improvements	94,553	116,330
Other long-term assets	1,804	1,804
Total long-term farm assets	452,112	484,987
Total Farm Assets	1,251,199	1,311,329
Total Nonfarm Assets	112,928	111,315
Total Assets	1,364,127	1,422,644
Liabilities		
Current Farm Liabilities		
Accrued interest	10,333	9,788
Accounts payable	16,487	17,939
Current notes	176,602	151,015
Government crop loans	0	0
Principal due on term debt	50,754	47,886
Total current farm liabilities	254,176	226,628
Total intermediate farm liabs	119,022	161,583
Total long term farm liabilities	436,412	457,244
Total farm liabilities	809,611	845,455
Total nonfarm liabilities	30,009	35,805
Total liabilities	839,620	881,260
Net worth (farm and nonfarm)	524,507	541,383
Net worth change		16,877
Percent net worth change		3 %
Ratio Analysis		
Current farm liabilities / assets	43 %	36 %
Intermediate farm liab. / assets	58 %	79 %
Long term farm liab. / assets	97 %	94 %
Total debt to asset ratio	62 %	62 %

Table 12

Balance Sheet at Market Values

2008 MI Swine

(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms	
Number of farms	11	
	Beginning	Ending
Assets		
Current Farm Assets		
Cash and checking balance	22,398	32,201
Prepaid expenses & supplies	42,498	47,182
Growing crops	6,121	5,919
Accounts receivable	13,951	25,710
Hedging accounts	3,025	4,111
Crops held for sale or feed	298,929	314,920
Crops under government loan	0	0
Market livestock held for sale	206,901	192,740
Other current assets	91	91
Total current farm assets	593,914	622,875
Intermediate Farm Assets		
Breeding livestock	46,048	47,305
Machinery and equipment	408,438	411,368
Titled vehicles	636	636
Other intermediate assets	28,558	19,524
Total intermediate farm assets	483,680	478,833
Long Term Farm Assets		
Farm land	849,310	867,621
Buildings and improvements	255,905	275,179
Other long-term assets	46,662	46,999
Total long-term farm assets	1,151,878	1,189,799
Total Farm Assets	2,229,471	2,291,506
Total Nonfarm Assets	252,302	245,719
Total Assets	2,481,773	2,537,226
Liabilities		
Current Farm Liabilities		
Accrued interest	10,333	9,788
Accounts payable	16,487	17,939
Current notes	176,602	151,015
Government crop loans	0	0
Principal due on term debt	50,754	47,886
Total current farm liabilities	254,176	226,628
Total intermediate farm liabs	119,022	161,583
Total long term farm liabilities	436,412	457,244
Total farm liabilities	809,611	845,455
Total nonfarm liabilities	30,009	35,805
Total liabs excluding deferreds	839,620	881,260
Total deferred liabilities	0	0
Total liabilities	839,620	881,260
Retained earnings	524,507	541,383
Market valuation equity	1,117,646	1,114,582
Net worth (farm and nonfarm)	1,642,153	1,655,965
Net worth excluding deferreds	1,642,153	1,655,965
Net worth change		13,813
Percent net worth change		1 %
Ratio Analysis		
Current farm liabilities / assets	43 %	36 %
Intermediate farm liab. / assets	25 %	34 %
Long term farm liab. / assets	38 %	38 %
Total debt to asset ratio	34 %	35 %
Debt to assets excl deferreds	34 %	35 %

Table 13

Statement Of Cash Flows

2008 MI Swine

(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	11
Beginning cash (farm & nonfarm)	22,398
Cash Provided By Operating Activities	
Gross cash farm income	1,051,242
Total cash farm expense	-989,492
Net cash from hedging transactions	2,009
Cash provided by operating	63,760
Cash Provided By Investing Activities	
Sale of breeding livestock	2,119
Sale of machinery & equipment	4,792
Sale of titled vehicles	-
Sale of farm land	-
Sale of farm buildings	-
Sale of other farm assets	25,098
Sale of nonfarm assets	-
Purchase of breeding livestock	-6,286
Purchase of machinery & equip.	-42,028
Purchase of titled vehicles	-
Purchase of farm land	-4,773
Purchase of farm buildings	-38,878
Purchase of other farm assets	-5,715
Purchase of nonfarm assets	-
Cash provided by investing	-65,672
Cash Provided By Financing Activities	
Money borrowed	627,491
Principal payments	-594,615
Personal income	11,031
Family living/owner withdrawals	-41,004
Income and social security tax	-2,462
Capital contributions	-
Capital distributions	-7,893
Dividends paid	-
Cash gifts and inheritances	34,440
Gifts given	-15,089
Other cash flows	-
Cash provided by financing	11,899
Net change in cash balance	9,987
Ending cash (farm & nonfarm)	32,385

Table 14

Financial Standards Measures

2008 MI Swine

(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	11
Liquidity	
Current ratio	2.75
Working capital	396,247
Working capital to gross inc	36.8 %
Solvency (market)	
Farm debt to asset ratio	37 %
Farm equity to asset ratio	63 %
Farm debt to equity ratio	0.58
Profitability (cost)	
Rate of return on farm assets	3.1 %
Rate of return on farm equity	-1.9 %
Operating profit margin	6.4 %
Net farm income	41,184
EBIDTA	138,297
Repayment Capacity	
Capital debt repayment capacity	84,285
Capital debt repayment margin	3,201
Replacement margin	-17,777
Term debt coverage ratio	1.04
Replacement coverage ratio	0.83
Efficiency	
Asset turnover rate (cost)	49.3 %
Operating expense ratio	87.1 %
Depreciation expense ratio	4.5 %
Interest expense ratio	4.6 %
Net farm income ratio	3.8 %

Table 15

Operator and Labor Information

2008 MI Swine

(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	11
Operator Information	
Average number of operators	1.5
Average age of operators	52.3
Average number of years farming	28.7
Results Per Operator	
Working capital	272,420
Total assets (market)	1,744,343
Total liabilities	605,867
Net worth (market)	1,138,476
Net worth excl deferred liabs	1,138,476
Gross farm income	739,343
Total farm expense	711,029
Net farm income from operations	28,314
Net nonfarm income	7,584
Family living & tax withdrawals	29,883
Total acres owned	211.6
Total crop acres	652.9
Crop acres owned	217.4
Crop acres cash rented	352.7
Crop acres share rented	82.8
Total pasture acres	-
Labor Analysis	
Number of farms	8
Total unpaid labor hours	2,381
Total hired labor hours	2,535
Total labor hours per farm	4,915
Unpaid hours per operator	1,465
Value of farm production / hour	115.27
Net farm income / unpaid hour	31.85
Average hourly hired labor wage	18.03

Table 16

Financial Summary

2008 MI Swine

(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	11
Income Statement	
Gross cash farm income	1,051,242
Total cash farm expense	989,492
Net cash farm income	61,750
Inventory change	27,742
Depreciation	-48,308
Net farm income from operations	41,184
Gain or loss on capital sales	-
Average net farm income	41,184
Median net farm income	-6,795
Profitability (cost)	
Rate of return on assets	3.1 %
Rate of return on equity	-1.9 %
Operating profit margin	6.4 %
Asset turnover rate	49.3 %
Profitability (market)	
Rate of return on assets	1.9 %
Rate of return on equity	-0.5 %
Operating profit margin	6.7 %
Asset turnover rate	27.9 %
Liquidity & Repayment (end of year)	
Current assets	622,875
Current liabilities	226,628
Current ratio	2.75
Working capital	396,247
Working capital to gross inc	36.8 %
Term debt coverage ratio	1.04
Replacement coverage ratio	0.83
Solvency (end of year at cost)	
Number of farms	11
Total farm assets	1,311,329
Total farm liabilities	845,455
Total assets	1,422,644
Total liabilities	881,260
Net worth	541,383
Net worth change	16,877
Farm debt to asset ratio	64 %
Total debt to asset ratio	62 %
Solvency (end of year at market)	
Number of farms	11
Total farm assets	2,291,506
Total farm liabilities	845,455
Total assets	2,537,226
Total liabilities	881,260
Net worth	1,655,965
Net worth change	13,813
Farm debt to asset ratio	37 %
Total debt to asset ratio	35 %
Nonfarm Information	
Net nonfarm income	11,031
Crop Acres	
Total acres owned	308
Total crop acres	950
Total crop acres owned	316
Total crop acres cash rented	513
Total crop acres share rented	120