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**2007 Michigan Dairy Grazing Farm
Business Analysis Summary**

Eric Wittenberg
And
Christopher Wolf

Staff Paper 2008-5

December, 2008



Department of Agricultural, Food, and
Resource Economics
MICHIGAN STATE UNIVERSITY
East Lansing, Michigan 48824

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By

Eric Wittenberg and Christopher Wolf¹

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¹ Co-workers in the TelFarm project were: R. Betz, L. Borton, B. Battel, W. Schauer, D. Stein, and V. Varner with the assistance of Michigan State University Extension Agents. Greenstone Farm Credit Services co-workers were Kelly Tobin, Steve Eshelman, Janice Raymond, Anne Gerke, Kathleen Spranger, Sonya Pentecost, and Lynette Wood. Farm Credit Services of Wisconsin co-worker was Steve Zimmerman.

Executive Summary

This report summarizes the financial and production records of 7 dairy grazing farms from across Michigan. These 7 farms indicated that they grazed dairy cows at least three months of the year and that grazing provided more than 30 percent of the forage consumed during the year. To be included, the farms must have produced at least 50 percent of gross cash farm income from milk and dairy animal 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 checked for accuracy. While considerable variation in the data exists, average values are reported in the summary tables and discussion that follows.

In 2006, the average size dairy farm in the business analysis had 133 cows producing an average of 15,906 pounds of milk per cow (Table 1). Milk price, based on gross income, averaged \$20.01/cwt. The average cropped acres per cow for the 7 dairy grazing farms was 3.9.

Table 1. Average Michigan Dairy Grazing Farm Characteristics, 2003-2007

	2003	2004	2005	2006	2007
Average number of cows	114	115	115	132	133
Milk sold per cow (pounds)	16,392	16,030	15,869	16,869	15,906
Average price of milk sold (\$/cwt)	\$12.81	16.75	\$15.87	\$13.71	20.01
Total acres owned	417	342	364	379	379
Total crop acres	479	424	401	547	525
Cropped acres per Cow	4.2	3.7	3.5	4.1	3.9
Number of farms	9	10	11	7	7

Net farm income is the return to operator unpaid management, labor and capital invested. Net farm income in 2007 averaged \$131,139 (Table 2). The median was \$86,923 and the standard deviation was \$76,627. Gross cash farm income averaged \$476,717 in 2007. The largest component of these revenues was milk sales, which averaged \$425,620. Average total cash expenses were \$383,724 and average net cash farm income was \$92,993. Inventory value increased by \$54,905. Depreciation and capital adjustments averaged a negative \$16,758.

Table 2. Average Michigan Dairy Grazing Farm Income Statement, 2003-2007

	2003	2004	2005	2006	2007
	(\$)	(\$)	(\$)	(\$)	(\$)
Gross cash farm income	297,148	357,317	340,678	388,894	476,717
- Total cash expense	<u>262,301</u>	<u>296,245</u>	<u>271,132</u>	<u>300,764</u>	<u>383,724</u>
= Net cash farm income	34,847	61,072	69,545	88,130	92,993
+ Inventory change*	-3,637	36,288	-10,651	5,101	54,905
+ Depreciation + capital adjustments*	<u>-14,060</u>	<u>-19,486</u>	<u>-17,788</u>	<u>-33,990</u>	<u>-16,758</u>
= Net farm income	17,150	77,873	41,106	59,241	131,139

*Changes calculated as ending value minus beginning value.

To put the profit values in perspective, we calculate profitability ratios. Rate of return on assets (ROA) is the farm operating profit (equal to net farm income plus interest expense less value of operator labor and management) divided by average total farm asset value (valued at current market value). Rate of return on assets is a measure of how much profit the farm business assets generated. The average 2007 dairy farm ROA (Market) was 9.5 percent, increase of 50 percent over 2006 (Table 3). Return on equity tells a similar story. Operating profit margin is the operating profit (as defined in ROA above) divided by gross revenues. Operating profit margin measures the dollars of profit generated per dollar of revenue. In 2007, Michigan dairy grazing farms generated 31.3 cents of profit per dollar of revenue. Asset turnover is the gross farm revenues divided by average asset value. Asset turnover measures the efficiency with which farm assets generate revenue. This value increased in 2007 to an average of 30.4 percent.

Table 3. Average Michigan Dairy Grazing Farm Profitability Indicators, 2003-2007

	2003	2004	2005	2006	2007
	(%)	(%)	(%)	(%)	(%)
Rate of return on assets*	0.1	5.2	3.2	6.4	9.5
Rate of return on equity	-1.4	5.7	2.8	7.6	11.7
Operating profit margin	0.6	20.9	15.4	25.2	31.3
Asset turnover rate*	25.7	24.8	21.1	25.4	30.4

* Assets valued at **market** value

Per Unit Income and Expenses

Table 4 displays average income and expenses items per hundredweight (cwt.) of milk and per cow across 7 dairy grazing farms. Both income and expenses were adjusted to an accrual basis where detailed financial information was provided. Average, accrual adjusted income and expenses per cropped acre are also included.

Income items related to the dairy herd are included in the first section. Government payments include all farm government payments—not just those related to the dairy herd. It was not possible to separate crop payments from dairy payments. *This table should not be interpreted as an estimate of the true cost of producing milk.* All farm sales are not included in the income items—only those that are related to the milking herd. Also, unpaid factors, including labor, management and capital, are not accounted for in the expense items. In addition, the allocation of resources amongst farm enterprises is not accurately reflected leaving the milking herd as the residual claimant on all expenses (especially labor costs).

The largest expense was purchased feed at \$5.35/cwt, family living averaged \$2.23 for second, repairs and machinery depreciation averaged \$1.58/cwt and \$1.52 respectively for third place, and hired labor was the fourth largest at \$1.05/cwt. Interest, and milk marketing and trucking combined were also significant expenses in 2007

The bottom of Tables 4 presents crop related expenses divided by the total cropped acres. To accurately calculate a crop cost of production requires labor and management (among other) expenses that were not separated out in the financial records.

Table 4. Average income and expenses across all grazing farms*, 2007

Income Items:	Per cwt.	Per Cow
Milk	\$20.01	\$3178.86
Cull Cows and Calves	\$1.23	\$201.25
Dairy Steers	\$0.25	\$31.29
Dairy Heifers	\$0.33	\$56.01
Government Payments	\$0.32	\$37.86
Patronage Dividends, cash	\$0.07	\$11.00
Crop Sales	\$0.49	\$84.94
Other Cash Income	\$0.01	\$1.48
Expense Items:	Per cwt.	Per Cow
Purchased Feeds	\$5.35	\$856.43
Breeding Fees	\$ 0.15	\$24.56
Veterinary	\$0.46	\$72.57
BST	N/A	N/A
Livestock Supplies	\$0.68	\$109.57
DHIA	\$0.03	\$2.50
Milk & Livestock Mkt. & Trucking	\$0.79	\$126.57
Interest	\$1.02	\$164.43
Fuel and Oil	\$1.01	\$159.57
Repairs	\$1.58	\$256.02
Custom Hire	\$0.84	\$141.93
Hired Labor	\$1.05	\$177.14
Leases	\$0.05	\$7.74
Real Estate Taxes	\$0.45	\$73.01
Farm Insurance	\$0.28	\$44.41
Utilities	\$0.56	\$87.57
Dues, Professional Fees	\$0.16	\$25.15
Miscellaneous	\$0.60	\$107.43
Machinery Depreciation	\$1.52	\$239.65
Building Depreciation	\$0.79	\$128.50
Family Living	\$2.23	\$337.86
Expense Items per Cropped Acre:	Per Acre	
Seed	\$21.00	
Fertilizer	\$38.42	
Crop Chemicals	\$1.24	
Crop Insurance	\$0.07	
Crop Miscellaneous	\$1.40	
Land Rent	\$15.71	

- All income and expense items averaged across all 7 farms whether or not they had that income or expense item. Other cash income includes custom work, insurance claims, and miscellaneous income.
-

Table 5

Crop Production and Marketing Summary
2007 MI Dairy Grazing Farms
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Dairy	
Number of farms	7
Average number of cows,	133
Milk production per cow lbs.,	15,906
Average milk price per cwt.,	\$20.01
Acreage Summary	
Total acres owned	379
Total crop acres	525
Crop acres owned	288
Crop acres cash rented	237
Crop acres share rented	-
Total pasture acres	42

Table 6

Farm Income Statement
2007 MI Dairy Grazing Farms
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	7
Cash Farm Income	
Corn	508
Hay, Alfalfa	200
Hay, Mixed	5,638
Wheat, Winter	2,011
Beef Replacement Heifers	256
Dairy, Milk	425,620
Dairy, Dairy Calves	2,433
Dairy Heifers (for sale)	1,879
Dairy Steer Finishing	4,376
Cull breeding livestock	29,166
Direct & CC govt payments	2,585
Other government payments	4,032
Custom work income	108
Patronage dividends, cash	1,174
Insurance income	455
Other farm income	-3,725
Gross Cash Farm Income	476,717

Table 6

Farm Income Statement (Continued)
2007 MI Dairy Grazing Farms
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	7
Cash Farm Expense	
Seed	9,368
Fertilizer	16,912
Crop chemicals	585
Crop insurance	58
Crop custom hire	2,289
Crop miscellaneous	867
Feeder livestock purchase	100
Purchased feed	115,266
Breeding fees	3,348
Veterinary	10,759
Supplies	14,171
DHIA	412
Livestock custom hire	146
Livestock hired labor	12,413
Livestock hauling and trucking	3,370
Marketing	11,447
Bedding	67
Livestock miscellaneous	579
Interest	24,029
Fuel & oil	23,183
Repairs	39,723
Custom hire	19,974
Hired labor	17,622
Land rent	11,001
Machinery leases	1,307
Real estate taxes	8,841
Farm insurance	5,201
Utilities	11,489
Hauling and trucking	100
Dues & professional fees	2,887
Miscellaneous	16,211
Total cash expense	383,724
Net cash farm income	92,993
Inventory Changes	
Crops and feed	9,295
Market livestock	-3,349
Accounts receivable	41,023
Prepaid expenses and supplies	5,332
Accounts payable	2,603
Total inventory change	54,905
Net operating profit	147,897
Depreciation and Other Capital Adjustments	
Breeding livestock	25,221
Machinery and equipment	-33,757
Buildings and improvements	-12,732
Other farm capital	4,510
Total depr. and other capital adj	-16,758
Net farm income	131,139

Table 7

Inventory Changes
2007 MI Dairy Grazing Farms
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	7
Net cash farm income	92,993
Crops and Feed	
Ending inventory	89,558
Beginning inventory	80,262
Inventory change	9,295
Market Livestock	
Ending inventory	1,820
Beginning inventory	5,169
Inventory change	-3,349
Accts Receivable & Other Current Assets	
Ending inventory	63,919
Beginning inventory	22,897
Inventory change	41,023
Prepaid Expenses and Supplies	
Ending inventory	21,575
Beginning inventory	16,243
Inventory change	5,332
Accounts Payable & Accrued Expenses	
Beginning inventory	18,788
Ending inventory	16,185
Inventory change	2,603
Total inventory change	54,905
Net operating profit	147,897

Table 8

Depreciation and Other Capital Adjustments
2007 MI Dairy Grazing Farms
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	7
Net operating profit	147,897
Breeding Livestock	
Ending inventory	319,786
Capital sales	-
Beginning inventory	292,396
Capital purchases	2,169
Depreciation, capital adjust.	25,221
Machinery and Equipment	
Ending inventory	78,039
Capital sales	150
Beginning inventory	90,577
Capital purchases	21,369
Depreciation, capital adjust.	-33,757
Buildings and Improvements	
Ending inventory	125,905
Capital sales	-
Beginning inventory	89,994
Capital purchases	48,642
Depreciation, capital adjust.	-12,732
Other Capital Assets	
Ending inventory	28,463
Capital sales	1,409
Beginning inventory	21,054
Capital purchases	4,308
Depreciation, capital adjust.	4,510
Total depreciation, capital adj.	-16,758
Net farm income	131,139

Table 9

Profitability Measures
2007 MI Dairy Grazing Farms
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	7
Profitability (assets valued at cost)	
Net farm income	131,139
Labor and management earnings	97,159
Rate of return on assets	10.9 %
Rate of return on equity	15.7 %
Operating profit margin	26.0 %
Asset turnover rate	41.8 %
Interest on farm net worth	33,980
Farm interest expense	24,035
Value of operator lbr and mgmt.	42,442
Return on farm assets	112,733
Average farm assets	1,037,507
Return on farm equity	88,697
Average farm equity	566,341
Value of farm production	433,540

	Avg. Of All Farms
Number of farms	7
Profitability (assets valued at market)	
Net farm income	154,241
Labor and management earnings	96,867
Rate of return on assets	9.5 %
Rate of return on equity	11.7 %
Operating profit margin	31.3 %
Asset turnover rate	30.4 %
Interest on farm net worth	57,373
Farm interest expense	24,035
Value of operator lbr and mgmt.	42,442
Return on farm assets	135,834
Average farm assets	1,427,386
Return on farm equity	111,799
Average farm equity	956,220
Value of farm production	433,540

Table 10

Liquidity Measures
2007 MI Dairy Grazing Farms
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	7
Liquidity (cash)	
Net cash farm income	92,993
Net nonfarm income	3,077
Family living and taxes	33,938
Principal due on long term debt	9,198
Cash available for interm. debt	52,933
Average intermediate debt	109,499
Years to turnover interm. debt	2.1
Expense as a % of income	80 %
Interest as a % of income	5 %
Working capital to gross income	30 %
Liquidity (accrual)	
Total accrual farm income	523,686
Total accrual operating expense	375,789
Net accrual operating income	147,897
Net nonfarm income	3,077
Family living and taxes	33,938
Principal due on long term debt	9,198
Available for intermediate debt	107,838
Average intermediate debt	109,499
Years to turnover interm. debt	1.0
Expense as a % of income	72 %
Interest as a % of income	5 %
Working capital to gross income	27 %

Table 11

Balance Sheet at Cost Values
2007 MI Dairy Grazing Farms
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms	
Number of farms	7	
	Beginning	Ending
Assets		
Current Farm Assets		
Cash and checking balance	13,580	22,483
Prepaid expenses & supplies	16,243	21,575
Growing crops	8,286	9,278
Accounts receivable	13,784	54,499
Hedging accounts	827	143
Crops held for sale or feed	80,262	89,558
Crops under government loan	0	0
Market livestock held for sale	5,169	1,820
Other current assets	0	0
Total current farm assets	138,150	199,356
Intermediate Farm Assets		
Breeding livestock	292,396	319,786
Machinery and equipment	86,021	74,556
Titled vehicles	4,556	3,483
Other intermediate assets	9,613	16,740
Total intermediate farm assets	392,586	414,565
Long Term Farm Assets		
Farm land	345,647	345,647
Buildings and improvements	89,994	125,905
Other long-term assets	11,441	11,723
Total long-term farm assets	447,083	483,275
Total Farm Assets	977,819	1,097,195
Total Nonfarm Assets	94,034	98,067
Total Assets	1,071,853	1,195,263
Liabilities		
Current Farm Liabilities		
Accrued interest	2,907	2,913
Accounts payable	15,882	13,272
Current notes	12,856	10,861
Government crop loans	0	0
Principal due on term debt	26,815	31,586
Total current farm liabilities	58,460	58,633
Total intermediate farm liabs	90,862	89,262
Total long term farm liabilities	310,873	334,244
Total farm liabilities	460,195	482,138
Total nonfarm liabilities	1,645	1,284
Total liabilities	461,839	483,422
Net worth (farm and nonfarm)	610,014	711,841
Net worth change		101,827
Ratio Analysis		
Current farm liabilities / assets	42 %	29 %
Curr. & interm farm liab. / assets	28 %	24 %
Long term farm liab. / assets	70 %	69 %
Total debt to asset ratio	43 %	40 %

Table 12

Balance Sheet at Market Values
2007 MI Dairy Grazing Farms
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms	
Number of farms	7	
	Beginning	Ending
Assets		
Current Farm Assets		
Cash and checking balance	13,580	22,483
Prepaid expenses & supplies	16,243	21,575
Growing crops	8,286	9,278
Accounts receivable	13,784	54,499
Hedging accounts	827	143
Crops held for sale or feed	80,262	89,558
Crops under government loan	0	0
Market livestock held for sale	5,169	1,820
Other current assets	0	0
Total current farm assets	138,150	199,356
Intermediate Farm Assets		
Breeding livestock	292,396	319,786
Machinery and equipment	211,632	212,838
Titled vehicles	6,929	6,571
Other intermediate assets	9,720	17,025
Total intermediate farm assets	520,678	556,221
Long Term Farm Assets		
Farm land	521,537	526,844
Buildings and improvements	164,341	204,481
Other long-term assets	11,441	11,723
Total long-term farm assets	697,319	743,048
Total Farm Assets	1,356,147	1,498,625
Total Nonfarm Assets	191,310	196,662
Total Assets	1,547,457	1,695,287
Liabilities		
Current Farm Liabilities		
Accrued interest	2,907	2,913
Accounts payable	15,882	13,272
Current notes	12,856	10,861
Government crop loans	0	0
Principal due on term debt	26,815	31,586
Total current farm liabilities	58,460	58,633
Total intermediate farm liabs	90,862	89,262
Total long term farm liabilities	310,873	334,244
Total farm liabilities	460,195	482,138
Total nonfarm liabilities	1,645	1,284
Total liabs excluding deferreds	461,839	483,422
Total deferred liabilities	0	0
Total liabilities	461,839	483,422
Retained earnings	610,014	711,841
Market valuation equity	475,604	500,025
Net worth (farm and nonfarm)	1,085,618	1,211,865
Net worth excluding deferreds	1,085,618	1,211,865
Net worth change		126,248
Ratio Analysis		
Current farm liabilities / assets	42 %	29 %
Curr. & interm farm liab. / assets	23 %	20 %
Long term farm liab. / assets	45 %	45 %
Total debt to asset ratio	30 %	29 %
Debt to assets excl deferreds	30 %	29 %

Table 13

Statement Of Cash Flows
2007 MI Dairy Grazing Farms
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	7
Beginning cash (farm & nonfarm)	13,580
Cash From Operating Activities	
Gross cash farm income	476,717
Net nonfarm income	3,077
Total cash farm expense	-383,724
Apparent family living expense	-32,527
Income and social security tax	-1,410
Cash from operations	62,132
Cash From Investing Activities	
Sale of breeding livestock	-
Sale of machinery & equipment	150
Sale of titled vehicles	-
Sale of farm land	-
Sale of farm buildings	-
Sale of other farm assets	1,409
Sale of nonfarm assets	3,885
Purchase of breeding livestock	-2,169
Purchase of machinery & equip.	-21,369
Purchase of titled vehicles	-
Purchase of farm land	-
Purchase of farm buildings	-48,642
Purchase of other farm assets	-4,308
Purchase of nonfarm assets	-1,143
Cash from investing activities	-72,187
Cash From Financing Activities	
Money borrowed	79,638
Cash gifts and inheritances	4,531
Principal payments	-55,453
Dividends paid	-
Gifts given	-6,900
Cash from financing activities	21,816
Net change in cash balance	11,761
Ending cash (farm & nonfarm)	25,341

Table 14

Financial Standards Measures
2007 MI Dairy Grazing Farms
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	7
Liquidity	
Current ratio	3.40
Working capital	140,723
Solvency (market)	
Farm debt to asset ratio	32 %
Farm equity to asset ratio	68 %
Farm debt to equity ratio	47 %
Profitability (cost)	
Rate of return on farm assets	10.9 %
Rate of return on farm equity	15.7 %
Operating profit margin	26.0 %
Net farm income	131,139
Repayment Capacity	
Term debt coverage ratio	308 %
Capital replacement margin	90,221
Efficiency	
Asset turnover rate (cost)	41.8 %
Operating expense ratio	67.2 %
Depreciation expense ratio	3.2 %
Interest expense ratio	4.6 %
Net farm income ratio	25.0 %

Table 15

Operator and Labor Information
2007 MI Dairy Grazing Farms
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	7
Operator Information	
Average number of operators	1.3
Average age of operators	53.6
Average number of years farming	30.3
Results Per Operator	
Working capital	109,452
Total assets (market)	1,318,557
Total liabilities	375,995
Net worth (market)	942,562
Net worth excl deferred liabs	942,562
Gross farm income	407,311
Total farm expense	305,314
Net farm income	101,997
Net nonfarm income	2,393
Family living & tax withdrawals	26,396
Total acres owned	295.1
Total crop acres	408.3
Crop acres owned	224.0
Crop acres cash rented	184.3
Crop acres share rented	-
Total pasture acres	32.4
Labor Analysis	
Number of farms	7
Total unpaid labor hours	3,860
Total hired labor hours	2,215
Total labor hours per farm	6,075
Unpaid hours per operator	3,002
Value of farm production / hour	71.36
Net farm income / unpaid hour	33.97
Average hourly hired labor wage	13.50

Table 16

Financial Summary
2007 MI Dairy Grazing Farms
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	7
Income Statement	
Gross cash farm income	476,717
Total cash farm expense	383,724
Net cash farm income	92,993
Inventory change	54,905
Depreciation and capital adjust	-16,758
Average net farm income	131,139
Median net farm income	86,923
Profitability (cost)	
Labor and management earnings	97,159
Rate of return on assets	10.9 %
Rate of return on equity	15.7 %
Operating profit margin	26.0 %
Asset turnover rate	41.8 %
Profitability (market)	
Labor and management earnings	96,867
Rate of return on assets	9.5 %
Rate of return on equity	11.7 %
Operating profit margin	31.3 %
Asset turnover rate	30.4 %
Liquidity	
Ending current ratio	3.40
Ending working capital	140,723
End working capital to gross inc	29.5 %
Term debt coverage ratio	307.7 %
Expense as a percent of income	71.8 %
Interest as a percent of income	4.6 %
Solvency (cost)	
Number of farms	7
Ending farm assets	1,097,195
Ending farm liabilities	482,138
Ending total assets	1,195,263
Ending total liabilities	483,422
Ending net worth	711,841
Net worth change	101,827
Ending farm debt to asset ratio	44 %
Beg total debt to asset ratio	43 %
End total debt to asset ratio	40 %
Solvency (market)	
Number of farms	7
Ending farm assets	1,498,625
Ending farm liabilities	482,138
Ending total assets	1,695,287
Ending total liabilities	483,422
Ending net worth	1,211,865
Net worth change	126,248
Ending farm debt to asset ratio	32 %
Beg total debt to asset ratio	30 %
End total debt to asset ratio	29 %
Nonfarm Information	
Net nonfarm income	3,077
Crop Acres	
Total acres owned	379
Total crop acres	525
Total crop acres owned	288
Total crop acres cash rented	237
Total crop acres share rented	-