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**2006 Michigan Tree Fruit Business  
Analysis Summary**

Eric Wittenberg, Stephen Harsh  
and  
Suzanne Thornsby

Staff Paper 2007-13

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

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## **2006 Michigan Tree Fruit Business Analysis Summary**

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Staff Paper No. 07-13  
by

Eric Wittenberg, Stephen Harsh  
and  
Suzanne Thornsbery

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 by  
 Eric Wittenberg, Stephen Harsh and Suzanne Thornsby <sup>1</sup>

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*Average of 5 Tree Fruit Farms*

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<sup>1</sup> 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.

## Executive Summary

This report summarizes the financial and production records of 9 Michigan tree fruit farms. To be included, the farms must have produced at least 50 percent of gross cash farm income from one or a combination of sales from cherries, apples, and other fruits. The records came from Michigan State University's TelFarm project. The values were pooled into averages for reporting purposes.

Farm records were included if a farm financial summary was completed for 2006 data including beginning and ending balance sheets, plus income and expenses. The data was checked to verify that cash and debt discrepancy were within an acceptable range, cash discrepancy must be less than 10% of gross cash inflow and debt discrepancy must be less than \$1,000. While considerable variation in the data exists, average values are reported in the summary tables that follow.

### *Synopsis of Michigan's Tree Fruit*

According to the United States Department of Agriculture (USDA) and National Agricultural Statistics Service (NASS) data, the Michigan fruit season of 2006 weather was generally mild temperatures with highly variable rainfall pattern. Michigan's apples and peaches had average yields but yields were above 2005 yield levels with higher prices for both apples and peaches. Tart cherries and sweet cherries had average yields, while below 2005 yield averages, while sweet cherries price increased, tart cherries price decreased from 2005 price. Table 1 provides fruit bearing acres, yields per acre, the five-year average yields per acre and prices received for apples, cherries sweet and tart, and peaches for Michigan.

**Table 1. Michigan Agricultural Statistical Service Summary of Tree Fruit (NASS)**

Fruit	2006 Avg. Bearing Acres	2006 Avg. Yield (lbs/acre)	2002-2006 Avg. Yield (lbs/acre)	2006 Price (\$/lb)	2002-2006 Avg. Price (\$/lb)
Apples	39,000	21,800	18,440	0.146	0.127
Cherries, Sweet	7,700	5,580	4,476	0.442	0.385
Cherries, Tart	26,400	7,200	5,351	0.192	0.322
Peaches	4,500	8,400	6,680	0.350	0.282

### *Summary of Results*

In 2006, the average tree fruit farm size in the business analysis was 158 acres owned and 136 acres cropped, (Table 2). The average price for apple was \$6.13 for 2006, NASS.

**Table 2. Average 2006 Michigan Tree Fruit Farm Characteristics**

Total acres owned	158
Total crop acres	136
Number of farms	9

Gross cash farm income, total of all farm income before expenses are deducted, averaged \$359,510 in 2006. The largest revenues were apples and cherries (sweet and tart) sales, averaging \$127,239 and \$73,842 respectively. Government payments averaged \$2,008 per farm. Other farm income (included other crops and resale of other fruit) averaged \$110,502 in 2006.

Net cash farm income (gross cash farm income of \$359,510, less total cash farm expenses of \$312,934) resulted in an average net cash farm income of \$46,576. Net farm income is net cash income less depreciation and adjusted for capital changes. The net farm income value is the return to the operator's unpaid management, labor, equity capital invested and family labor (Table 3). Net farm income in 2006 averaged \$13,019 down 66 percent over 2005. The variation in net farm income for these farms was large. The net farm income median was \$19,488 and the range was a negative \$110,893 to \$133,872. The standard deviation was \$73,460 for 2006.

**Table 3. Average Michigan Tree Fruit Farm Income Statement, 2002-2006**

	2002	2003	2004	2005	2006
Gross cash farm income	162,474	300,788	329,932	319,645	359,510
- Total cash expense	<u>122,311</u>	<u>252,787</u>	<u>244,830</u>	<u>231,336</u>	<u>312,934</u>
= Net cash farm income	40,164	48,001	85,102	88,309	46,576
+ Inventory change*	-37,839	38,025	2,959	-6,494	-5,888
+ Depreciation and capital adjustments	<u>-14,888</u>	<u>-11,961</u>	<u>-29,738</u>	<u>-43,320</u>	<u>-27,669</u>
= Net farm income	-12,564	74,064	58,324	38,495	13,019

\* Changes calculated as ending values minus beginning values.

Four key financial performance indicators are presented in Tables 4 and 5. The rate of return on assets (ROA) is calculated as if the farm has no debt. ROA indicates debt-free farm earnings, after subtracting an allowance for operator's unpaid labor, management, and family labor, as a percentage of invested assets. ROA provides a key summary performance indicator for a farm. By multiplying the operating profit margin (dollars of profit generated per dollar of revenue) by the asset turnover rate (measure of how efficiency assets are being used to generate revenue) the ROA is determined.

The rate of return on equity (ROE) represents the farm earnings after interest payments and is expressed as a percentage of owner equity capital. Ideally the ROE should be higher than the

ROA indicating that returns are being made on borrowed money. This was not the case for the market value calculations, Table 5.

Table 4 compares profitability from 2002 to 2006 with assets valued at cost. Profitability indicators calculated using assets valued at cost is useful for comparing the same farm over time. The average ROA in 2006 for tree fruit farm was negative 1.6 percent, which was down from the 2005 value of 0.7 percent. Return on equity was a negative 8.3 percent in 2006, indicating that returns in 2006 were not being made on borrowed money. With assets valued at cost, return to equity is the actual return to the amount of equity capital invested in the business. With return to equity less than return to assets, it reflects that borrowed capital is not earning more than the interest costs. Operating profit margin tells a similar story. Asset turnover ratio, a measure of efficiency of the assets to generate revenues, in 2006 was 67.4 percent indicating that the farm assets were a little more efficient in 2006. The trends with respect to all profitability indicators, calculated at the cost value suggest that profitability in 2006 was poor.

**Table 4. Average Tree Fruit Farm Profitability Indicators, 2002-2006**

	2002	2003	2004	2005	2006
	(%)				
Rate of return on assets*	-6.0	8.9	6.7	0.7	-1.6
Rate of return on equity	-14.1	15.1	9.3	-1.0	-8.3
Operating profit margin	-21.8	14.1	9.3	1.2	-2.4
Asset turnover rate*	27.4	63.1	72.3	60.6	67.4

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

Table 5 compares profitability measures across five years, 2002 to 2006, with assets valued at market. The market value approach includes the impact of value appreciation (inflation) of the asset base overtime. Land is the main source of appreciation and it 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.

The average return on assets (ROA) for 2006 was 1.1 percent, which was a 70 percent decrease over the 2005 average ROA of 3.9 percent. Return on equity (ROE) for 2006 was 0.0 percent. Operating profit margin (OPM) measures the dollars of profit generated per dollar of revenue. In 2006 the OPM was 3.5 percent. At the same time the asset turnover ratio increased slightly. The asset turnover ratio measures the efficiency with which farm assets generate revenue. In 2006, the asset turnover ratio was 33.0. Again, the trend with respect to profitability on the market side, illustrates that 2006 was a tough year.

**Table 5. Average Tree Fruit Farm Profitability Indicators, 2002-2006**

	2002	2003	2004	2005	2006
			(%)		
Rate of return on assets*	3.2	4.0	2.9	3.9	1.1
Rate of return on equity	2.9	4.1	2.5	4.2	0.0
Operating profit margin	24.4	14.4	10.3	13.9	3.5
Asset turnover rate*	13.2	28.0	27.7	27.9	33.0

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

The following tables provide additional details for the figures discussed earlier.



Table 6

## Crop Production and Marketing Summary

**2006 MI Tree Fruit**

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

---

	Avg. Of All Farms
Number of farms	9
Acreage Summary	
Total acres owned	158
Total crop acres	136
Crop acres owned	73
Crop acres cash rented	63
Crop acres share rented	-
Total pasture acres	-
Average Price Received (Cash Sales Only)	
Apples per bushel	5.75

---

Table 7

Farm Income Statement  
**2006 MI Tree Fruit**  
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	9
Cash Farm Income	
Apples	127,239
Asparagus	11,224
Cherries	52,565
Cherries, Sweet	5,525
Cherries, Tart	15,752
Cordwood	162
Grapes	379
Peaches	22,576
Pears	544
Plums	855
Pumpkins	217
Raspberries	671
Rhubarb	45
Squash	1,869
Miscellaneous crop income	11
Misc. livestock income	12
Other government payments	2,008
Custom work income	286
Patronage dividends, cash	316
Insurance income	6,752
Other farm income	110,502
Gross Cash Farm Income	359,510

Table 7

## Farm Income Statement (Continued)

**2006 MI Tree Fruit**

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

	Avg. Of All Farms
Number of farms	9
Cash Farm Expense	
Crop seed	2,953
Fertilizer	7,466
Crop chemicals	47,259
Crop insurance	1,208
Packaging and supplies	4,461
Marketing	1,801
Crop miscellaneous	6,455
Purchased feed	89
Livestock supplies	1,267
Interest	13,095
Seed	80
Supplies	1,018
Fuel & oil	14,352
Repairs	18,892
Custom hire	5,208
Hired labor	101,742
Land rent	30,860
Machinery leases	1,566
Real estate taxes	4,152
Personal property taxes	616
Farm insurance	10,180
Utilities	7,617
Dues & professional fees	5,370
Miscellaneous	25,227
Total cash expense	312,934
Net cash farm income	46,576
Inventory Changes	
Crops and feed	7,699
Market livestock	1,739
Accounts receivable	-21,759
Prepaid expenses and supplies	2,972
Accounts payable	3,461
Total inventory change	-5,888
Net operating profit	40,688
Depreciation and Other Capital Adjustments	
Breeding livestock	-
Machinery and equipment	-10,408
Buildings and improvements	-15,977
Other farm capital	-1,284
Total depr. and other capital adj	-27,669
Net farm income	13,019

Table 8

Inventory Changes  
**2006 MI Tree Fruit**

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

	Avg. Of All Farms
Number of farms	9
Net cash farm income	46,576
Crops and Feed	
Ending inventory	66,309
Beginning inventory	58,609
Inventory change	7,699
Market Livestock	
Ending inventory	7,933
Beginning inventory	6,194
Inventory change	1,739
Accts Receivable & Other Current Assets	
Ending inventory	35,716
Beginning inventory	57,475
Inventory change	-21,759
Prepaid Expenses and Supplies	
Ending inventory	13,083
Beginning inventory	10,111
Inventory change	2,972
Accounts Payable & Accrued Expenses	
Beginning inventory	7,299
Ending inventory	3,839
Inventory change	3,461
Total inventory change	-5,888
Net operating profit	40,688

Table 9

## Depreciation and Other Capital Adjustments

**2006 MI Tree Fruit**

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

	Avg. Of All Farms
Number of farms	9
Net operating profit	40,688
Breeding Livestock	
Ending inventory	-
Capital sales	-
Beginning inventory	-
Capital purchases	-
Depreciation, capital adjust.	-
Machinery and Equipment	
Ending inventory	53,269
Capital sales	742
Beginning inventory	43,507
Capital purchases	20,912
Depreciation, capital adjust.	-10,408
Buildings and Improvements	
Ending inventory	85,528
Capital sales	-
Beginning inventory	78,036
Capital purchases	23,469
Depreciation, capital adjust.	-15,977
Other Capital Assets	
Ending inventory	37,786
Capital sales	883
Beginning inventory	32,200
Capital purchases	7,752
Depreciation, capital adjust.	-1,284
Total depreciation, capital adj.	-27,669
Net farm income	13,019

Table 10

## Profitability Measures

**2006 MI Tree Fruit**

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

	Avg. Of All Farms
Number of farms	9
Profitability (assets valued at cost)	
Net farm income	13,019
Labor and management earnings	-5,943
Rate of return on assets	-1.6 %
Rate of return on equity	-8.3 %
Operating profit margin	-2.4 %
Asset turnover rate	67.4 %
Interest on farm net worth	18,962
Farm interest expense	12,396
Value of operator lbr and mgmt.	33,604
Return on farm assets	-8,189
Average farm assets	514,688
Return on farm equity	-20,585
Average farm equity	248,830
Value of farm production	347,099
	Avg. Of All Farms
Number of farms	9
Profitability (assets valued at market)	
Net farm income	33,226
Labor and management earnings	-13,853
Rate of return on assets	1.1 %
Rate of return on equity	0.0 %
Operating profit margin	3.5 %
Asset turnover rate	33.0 %
Interest on farm net worth	47,079
Farm interest expense	12,396
Value of operator lbr and mgmt.	33,604
Return on farm assets	12,018
Average farm assets	1,050,505
Return on farm equity	-378
Average farm equity	784,647
Value of farm production	347,099

Table 11

## Liquidity Measures

**2006 MI Tree Fruit**

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

	Avg. Of All Farms
Number of farms	9
Liquidity (cash)	
Net cash farm income	46,576
Net nonfarm income	9,007
Family living and taxes	37,789
Principal due on long term debt	7,064
Cash available for interm. debt	10,731
Average intermediate debt	39,485
Years to turnover interm. debt	3.7
Expense as a % of income	87 %
Interest as a % of income	4 %
Working capital to gross income	17 %
Liquidity (accrual)	
Total accrual farm income	347,189
Total accrual operating expense	306,501
Net accrual operating income	40,688
Net nonfarm income	9,007
Family living and taxes	37,789
Principal due on long term debt	7,064
Available for intermediate debt	4,843
Average intermediate debt	39,485
Years to turnover interm. debt	8.2
Expense as a % of income	88 %
Interest as a % of income	4 %
Working capital to gross income	17 %

Table 12

Balance Sheet at Cost Values  
**2006 MI Tree Fruit**  
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms	
Number of farms	9	
	Beginning	Ending
<b>Assets</b>		
<b>Current Farm Assets</b>		
Cash and checking balance	30,380	-3,774
Prepaid expenses & supplies	10,111	13,083
Growing crops	0	0
Accounts receivable	52,226	33,523
Hedging accounts	0	0
Crops held for sale or feed	58,609	66,309
Crops under government loan	0	0
Market livestock held for sale	6,194	7,933
Other current assets	5,250	2,193
<b>Total current farm assets</b>	<b>162,770</b>	<b>119,268</b>
<b>Intermediate Farm Assets</b>		
Breeding livestock	0	0
Machinery and equipment	40,174	50,380
Titled vehicles	3,333	2,889
Other intermediate assets	21,974	21,217
<b>Total intermediate farm assets</b>	<b>65,481</b>	<b>74,486</b>
<b>Long Term Farm Assets</b>		
Farm land	191,493	225,519
Buildings and improvements	78,036	85,528
Other long-term assets	10,226	16,569
<b>Total long-term farm assets</b>	<b>279,755</b>	<b>327,616</b>
<b>Total Farm Assets</b>	<b>508,006</b>	<b>521,369</b>
<b>Total Nonfarm Assets</b>	<b>114,567</b>	<b>125,830</b>
<b>Total Assets</b>	<b>622,573</b>	<b>647,199</b>
<b>Liabilities</b>		
<b>Current Farm Liabilities</b>		
Accrued interest	3,102	2,403
Accounts payable	4,198	1,436
Current notes	21,564	28,174
Government crop loans	0	0
Principal due on term debt	22,136	26,893
<b>Total current farm liabilities</b>	<b>51,000</b>	<b>58,906</b>
<b>Total intermediate farm liabs</b>	<b>24,185</b>	<b>24,649</b>
<b>Total long term farm liabilities</b>	<b>173,029</b>	<b>199,948</b>
<b>Total farm liabilities</b>	<b>248,213</b>	<b>283,502</b>
<b>Total nonfarm liabilities</b>	<b>1,224</b>	<b>186</b>
<b>Total liabilities</b>	<b>249,437</b>	<b>283,688</b>
<b>Net worth (farm and nonfarm)</b>	<b>373,136</b>	<b>363,511</b>
<b>Net worth change</b>		<b>-9,625</b>
<b>Ratio Analysis</b>		
Current farm liabilities / assets	31 %	49 %
Curr. & interm farm liab. / assets	33 %	43 %
Long term farm liab. / assets	62 %	61 %
<b>Total debt to asset ratio</b>	<b>40 %</b>	<b>44 %</b>



Table 13

## Balance Sheet at Market Values

## 2006 MI Tree Fruit

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

	Avg. Of All Farms	
Number of farms	9	
	Beginning	Ending
<b>Assets</b>		
<b>Current Farm Assets</b>		
Cash and checking balance	30,380	-3,774
Prepaid expenses & supplies	10,111	13,083
Growing crops	0	0
Accounts receivable	52,226	33,523
Hedging accounts	0	0
Crops held for sale or feed	58,609	66,309
Crops under government loan	0	0
Market livestock held for sale	6,194	7,933
Other current assets	5,250	2,193
Total current farm assets	162,770	119,268
<b>Intermediate Farm Assets</b>		
Breeding livestock	0	0
Machinery and equipment	158,368	176,331
Titled vehicles	24,056	25,833
Other intermediate assets	34,331	32,463
Total intermediate farm assets	216,754	234,627
<b>Long Term Farm Assets</b>		
Farm land	535,269	585,895
Buildings and improvements	105,968	108,199
Other long-term assets	12,959	19,301
Total long-term farm assets	654,196	713,395
Total Farm Assets	1,033,720	1,067,290
Total Nonfarm Assets	152,995	166,147
Total Assets	1,186,715	1,233,436
<b>Liabilities</b>		
<b>Current Farm Liabilities</b>		
Accrued interest	3,102	2,403
Accounts payable	4,198	1,436
Current notes	21,564	28,174
Government crop loans	0	0
Principal due on term debt	22,136	26,893
Total current farm liabilities	51,000	58,906
Total intermediate farm liabs	24,185	24,649
Total long term farm liabilities	173,029	199,948
Total farm liabilities	248,213	283,502
Total nonfarm liabilities	1,224	186
Total liabs excluding deferreds	249,437	283,688
Total deferred liabilities	0	0
Total liabilities	249,437	283,688
Retained earnings	373,136	363,511
Market valuation equity	564,142	586,237
Net worth (farm and nonfarm)	937,278	949,748
Net worth excluding deferreds	937,278	949,748
Net worth change		12,470
<b>Ratio Analysis</b>		
Current farm liabilities / assets	31 %	49 %
Curr. & interm farm liab. / assets	20 %	24 %
Long term farm liab. / assets	26 %	28 %
Total debt to asset ratio	21 %	23 %
Debt to assets excl deferreds	21 %	23 %

Table 14

## Statement Of Cash Flows

**2006 MI Tree Fruit**

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

	Avg. Of All Farms
Number of farms	9
Beginning cash (farm & nonfarm)	42,412
Cash From Operating Activities	
Gross cash farm income	359,510
Net nonfarm income	9,007
Total cash farm expense	-312,934
Apparent family living expense	-31,879
Income and social security tax	-5,910
Cash from operations	17,795
Cash From Investing Activities	
Sale of breeding livestock	-
Sale of machinery & equipment	742
Sale of titled vehicles	-
Sale of farm land	6,566
Sale of farm buildings	-
Sale of other farm assets	883
Sale of nonfarm assets	8,924
Purchase of breeding livestock	-
Purchase of machinery & equip.	-20,912
Purchase of titled vehicles	-
Purchase of farm land	-35,561
Purchase of farm buildings	-23,469
Purchase of other farm assets	-7,752
Purchase of nonfarm assets	-12,005
Cash from investing activities	-82,583
Cash From Financing Activities	
Money borrowed	119,973
Cash gifts and inheritances	12,914
Principal payments	-82,284
Dividends paid	-
Gifts given	-30,383
Cash from financing activities	20,219
Net change in cash balance	-44,569
Ending cash (farm & nonfarm)	-2,158

Table 15

## Financial Standards Measures

**2006 MI Tree Fruit**

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

	Avg. Of All Farms
Number of farms	9
Liquidity	
Current ratio	2.02
Working capital	60,362
Solvency (market)	
Farm debt to asset ratio	27 %
Farm equity to asset ratio	73 %
Farm debt to equity ratio	36 %
Profitability (cost)	
Rate of return on farm assets	-1.6 %
Rate of return on farm equity	-8.3 %
Operating profit margin	-2.4 %
Net farm income	13,019
Repayment Capacity	
Term debt coverage ratio	67 %
Capital replacement margin	-10,229
Efficiency	
Asset turnover rate (cost)	67.4 %
Operating expense ratio	84.7 %
Depreciation expense ratio	8.0 %
Interest expense ratio	3.6 %
Net farm income ratio	3.7 %

Table 16

## Operator and Labor Information

**2006 MI Tree Fruit**

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

	Avg. Of All Farms
Number of farms	9
Operator Information	
Average number of operators	1.0
Average age of operators	46.8
Average number of years farming	21.4
Results Per Operator	
Working capital	60,362
Total assets (market)	1,233,436
Total liabilities	283,688
Net worth (market)	949,748
Net worth excl deferred liabs	949,748
Gross farm income	347,189
Total farm expense	334,169
Net farm income	13,019
Net nonfarm income	9,007
Family living & tax withdrawals	37,789
Total acres owned	157.6
Total crop acres	135.8
Crop acres owned	73.3
Crop acres cash rented	62.6
Crop acres share rented	-
Total pasture acres	-
Labor Analysis	
Number of farms	9
Total unpaid labor hours	2,150
Total hired labor hours	15,240
Total labor hours per farm	17,390
Unpaid hours per operator	2,150
Value of farm production / hour	19.07
Net farm income / unpaid hour	4.92
Average hourly hired labor wage	5.43

Table 17

Financial Summary  
2006 MI Tree Fruit

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

	Avg. Of All Farms
Number of farms	9
Income Statement	
Gross cash farm income	359,510
Total cash farm expense	312,934
Net cash farm income	46,576
Inventory change	-5,888
Depreciation and capital adjust	-27,669
Net farm income	13,019
Profitability (cost)	
Labor and management earnings	-5,943
Rate of return on assets	-1.6 %
Rate of return on equity	-8.3 %
Operating profit margin	-2.4 %
Asset turnover rate	67.4 %
Profitability (market)	
Labor and management earnings	-13,853
Rate of return on assets	1.1 %
Rate of return on equity	0.0 %
Operating profit margin	3.5 %
Asset turnover rate	33.0 %
Liquidity	
Ending current ratio	2.02
Ending working capital	60,362
End working capital to gross inc	16.8 %
Term debt coverage ratio	66.8 %
Expense as a percent of income	88.3 %
Interest as a percent of income	3.6 %
Solvency (cost)	
Number of farms	9
Ending farm assets	521,369
Ending farm liabilities	283,502
Ending total assets	647,199
Ending total liabilities	283,688
Ending net worth	363,511
Net worth change	-9,625
Ending farm debt to asset ratio	54 %
Beg total debt to asset ratio	40 %
End total debt to asset ratio	44 %
Solvency (market)	
Number of farms	9
Ending farm assets	1,067,290
Ending farm liabilities	283,502
Ending total assets	1,233,436
Ending total liabilities	283,688
Ending net worth	949,748
Net worth change	12,470
Ending farm debt to asset ratio	27 %
Beg total debt to asset ratio	21 %
End total debt to asset ratio	23 %
Nonfarm Information	
Net nonfarm income	9,007
Crop Acres	
Total acres owned	158
Total crop acres	136
Total crop acres owned	73
Total crop acres cash rented	63
Total crop acres share rented	-