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**2006 Michigan Dairy Grazing Farm
Business Analysis Summary**

Eric Wittenberg
And
Christopher Wolf

Staff Paper 2007-09

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

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Staff Paper No. 2007-09, November 2007

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, Tiffany Aldrich, 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 132 cows producing an average of 16,869 pounds of milk per cow (Table 1). Milk price, based on gross income, averaged \$13.71/cwt. The average cropped acres per cow for the 7 dairy grazing farms was 4.1.

Table 1. Average Michigan Dairy Grazing Farm Characteristics, 2002-2006

	2002	2003	2004	2005	2006
Average number of cows	111	114	115	115	132
Milk sold per cow (pounds)	15,758	16,392	16,030	15,869	16,869
Average price of milk sold (\$/cwt)	\$12.87	\$12.81	16.75	\$15.87	\$13.71
Total acres owned	400	417	342	364	379
Total crop acres	464	479	424	401	547
Cropped acres per Cow	4.2	4.2	3.7	3.5	4.1
Number of farms	9	9	10	11	7

Net farm income is the return to operator unpaid management, labor and capital invested. Net farm income in 2006 averaged \$59,241 (Table 2). The median was \$69,627 and the standard deviation was \$32,441. Gross cash farm income averaged \$388,894 in 2006. The largest component of these revenues was milk sales, which averaged \$300,946. Average total cash expenses were \$300,764 and average net cash farm income was \$88,130. Inventory value increased by \$5,101. Depreciation and capital adjustments averaged a negative \$33,990.

Table 2. Average Michigan Dairy Grazing Farm Income Statement, 2002-2006

	2002	2003	2004	2005	2006
			(\$)		
Gross cash farm income	277,302	297,148	357,317	340,678	388,894
- Total cash expense	<u>237,264</u>	<u>262,301</u>	<u>296,245</u>	<u>271,132</u>	<u>300,764</u>
= Net cash farm income	40,038	34,847	61,072	69,545	88,130
+ Inventory change*	-1,766	-3,637	36,288	-10,651	5,101
+ Depreciation + capital adjustments*	<u>-21,326</u>	<u>-14,060</u>	<u>-19,486</u>	<u>-17,788</u>	<u>-33,990</u>
= Net farm income	16,945	17,150	77,873	41,106	59,241

*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 2006 dairy farm ROA (Market) was 6.4 percent, increase of 100 percent over 2005 (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 2006, Michigan dairy grazing farms generated 25.2 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 2006 to an average of 25.4 percent.

Table 3. Average Michigan Dairy Grazing Farm Profitability Indicators, 2002-2006

	2002	2003	2004	2005	2006
			(%)		
Rate of return on assets*	-2.8	0.1	5.2	3.2	6.4
Rate of return on equity	-9.3	-1.4	5.7	2.8	7.6
Operating profit margin	-7.3	0.6	20.9	15.4	25.2
Asset turnover rate*	38.8	25.7	24.8	21.1	25.4

* 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 \$3.85/cwt, machinery depreciation averaged \$1.33/cwt for second, and hired labor was the third largest at \$1.09/cwt. Repairs, interest, and milk marketing and trucking combined were also significant expenses in 2006

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*, 2006

Income Items:	Per cwt.	Per Cow
Milk	\$13.71	\$2,286.40
Cull Cows and Calves	\$1.29	\$218.71
Dairy Steers	\$0.31	\$47.45
Dairy Heifers	\$0.22	\$40.01
Government Payments	\$0.92	\$155.99
Patronage Dividends, cash	\$0.10	\$16.39
Crop Sales	\$0.70	\$139.85
Other Cash Income	\$0.24	\$39.72
Expense Items:	Per cwt.	Per Cow
Purchased Feeds	\$3.85	\$655.64
Breeding Fees	\$ 0.12	\$22.08
Veterinary	\$0.41	\$67.64
BST	N/A	N/A
Livestock Supplies	\$0.60	\$99.42
DHIA	\$0.01	\$1.57
Milk & Livestock Mkt. & Trucking	\$0.78	\$132.26
Interest	\$0.83	\$137.74
Fuel and Oil	\$0.77	\$128.90
Repairs	\$0.99	\$164.22
Custom Hire	\$0.64	\$114.74
Hired Labor	\$1.09	\$188.19
Leases	\$0.02	\$2.38
Real Estate Taxes	\$0.20	\$31.43
Farm Insurance	\$0.28	\$40.14
Utilities	\$0.51	\$84.34
Dues, Professional Fees	\$0.11	\$18.34
Miscellaneous	\$0.43	\$79.65
Machinery Depreciation	\$1.33	\$229.91
Building Depreciation	\$0.63	\$105.95
Expense Items per Cropped Acre:	Per Acre	
Seed	\$12.46	
Fertilizer	\$30.16	
Crop Chemicals	\$8.71	
Crop Insurance	\$0.04	
Crop Miscellaneous	\$9.81	
Land Rent	\$10.46	

* 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
2006 MI Grazing Dairy Farms
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Dairy	
Number of farms	7
Average number of Cows,	132
Milk production per Cow, lbs.,	16,869
Average milk price per cwt.,	\$13.71
Acreage Summary	
Total acres owned	379
Total crop acres	547
Crop acres owned	307
Crop acres cash rented	240
Crop acres share rented	-
Total pasture acres	39
Average Price Received (Cash Sales Only)	

Table 6

Farm Income Statement
2006 MI Grazing Dairy Farms
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	7
Cash Farm Income	
Corn	3,102
Hay, Alfalfa	81
Hay, Mixed	8,982
Haylage, Mixed	143
Straw	122
Wheat, Winter	2,352
Dairy, Milk	300,946
Dairy, Dairy Calves	5,389
Dairy Heifers (for sale)	1,154
Dairy Replacement Heifers	286
Dairy Steer Finishing	5,999
Hogs, Feeder Pigs, Feeder Pigs	64
Cull breeding livestock	31,330
Misc. livestock income	63
Direct & CC govt payments	8,238
Other government payments	15,161
Custom work income	136
Patronage dividends, cash	1,497
Cash from hedging accts	714
Other farm income	3,136
Gross Cash Farm Income	388,894

Table 6

Farm Income Statement (Continued)
2006 MI Grazing Dairy Farms
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	7
Cash Farm Expense	
Seed	6,042
Fertilizer	14,624
Crop chemicals	1,632
Crop insurance	186
Crop custom hire	4,271
Crop miscellaneous	1,567
Feeder livestock purchase	64
Purchased feed	87,213
Breeding fees	2,672
Veterinary	9,219
Livestock supplies	10,054
DHIA	320
Livestock utilities	969
Hauling and trucking	3,909
Marketing	10,903
Bedding	54
Livestock miscellaneous	601
Interest	19,571
Supplies	286
Fuel & oil	18,739
Repairs	24,361
Custom hire	13,800
Hired labor	32,455
Land rent	7,182
Machinery leases	380
Real estate taxes	4,204
Personal property taxes	43
Farm insurance	4,820
Utilities	9,574
Dues & professional fees	1,879
Miscellaneous	9,168
Total cash expense	300,764
Net cash farm income	88,130
Inventory Changes	
Crops and feed	9,924
Market livestock	3,422
Accounts receivable	-5,747
Prepaid expenses and supplies	344
Accounts payable	-2,842
Total inventory change	5,101
Net operating profit	93,231
Depreciation and Other Capital Adjustments	
Breeding livestock	9,912
Machinery and equipment	-31,592
Buildings and improvements	-12,224
Other farm capital	-86
Total depr. and other capital adj	-33,990
Net farm income	59,241

Table 7

Inventory Changes
2006 MI Grazing Dairy Farms
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	7
Net cash farm income	88,130
Crops and Feed	
Ending inventory	80,262
Beginning inventory	70,338
Inventory change	9,924
Market Livestock	
Ending inventory	5,169
Beginning inventory	1,746
Inventory change	3,422
Accts Receivable & Other Current Assets	
Ending inventory	22,897
Beginning inventory	28,644
Inventory change	-5,747
Prepaid Expenses and Supplies	
Ending inventory	16,243
Beginning inventory	15,899
Inventory change	344
Accounts Payable & Accrued Expenses	
Beginning inventory	16,892
Ending inventory	19,735
Inventory change	-2,842
Total inventory change	5,101
Net operating profit	93,231

Table 8

Depreciation and Other Capital Adjustments
2006 MI Grazing Dairy Farms
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	7
Net operating profit	93,231
Breeding Livestock	
Ending inventory	292,396
Capital sales	-
Beginning inventory	281,775
Capital purchases	709
Depreciation, capital adjust.	9,912
Machinery and Equipment	
Ending inventory	88,306
Capital sales	943
Beginning inventory	88,968
Capital purchases	31,873
Depreciation, capital adjust.	-31,592
Buildings and Improvements	
Ending inventory	89,994
Capital sales	-
Beginning inventory	78,997
Capital purchases	23,222
Depreciation, capital adjust.	-12,224
Other Capital Assets	
Ending inventory	19,135
Capital sales	17
Beginning inventory	18,646
Capital purchases	592
Depreciation, capital adjust.	-86
Total depreciation, capital adj.	-33,990
Net farm income	59,241

Table 9

Profitability Measures
2006 MI Grazing Dairy 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	59,241
Labor and management earnings	29,421
Rate of return on assets	3.6 %
Rate of return on equity	2.8 %
Operating profit margin	10.9 %
Asset turnover rate	33.3 %
Interest on farm net worth	29,820
Farm interest expense	20,545
Value of operator lbr and mgmt.	45,144
Return on farm assets	34,642
Average farm assets	959,557
Return on farm equity	14,097
Average farm equity	497,005
Value of farm production	319,128

	Avg. Of All Farms
Number of farms	7
Profitability (assets valued at market)	
Net farm income	105,145
Labor and management earnings	57,564
Rate of return on assets	6.4 %
Rate of return on equity	7.6 %
Operating profit margin	25.2 %
Asset turnover rate	25.4 %
Interest on farm net worth	47,581
Farm interest expense	20,545
Value of operator lbr and mgmt.	45,144
Return on farm assets	80,546
Average farm assets	1,255,573
Return on farm equity	60,001
Average farm equity	793,021
Value of farm production	319,128

Table 10

Liquidity Measures
2006 MI Grazing Dairy Farms
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	7
Liquidity (cash)	
Net cash farm income	88,130
Net nonfarm income	1,751
Family living and taxes	36,726
Principal due on long term debt	9,276
Cash available for interm. debt	43,879
Average intermediate debt	92,493
Years to turnover interm. debt	2.1
Expense as a % of income	77 %
Interest as a % of income	5 %
Working capital to gross income	21 %
Liquidity (accrual)	
Total accrual farm income	396,493
Total accrual operating expense	303,262
Net accrual operating income	93,231
Net nonfarm income	1,751
Family living and taxes	36,726
Principal due on long term debt	9,276
Available for intermediate debt	48,980
Average intermediate debt	92,493
Years to turnover interm. debt	1.9
Expense as a % of income	76 %
Interest as a % of income	5 %
Working capital to gross income	21 %

Table 11

Balance Sheet at Cost Values
2006 MI Grazing Dairy 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	12,233	16,171
Prepaid expenses & supplies	15,899	16,243
Growing crops	6,857	8,286
Accounts receivable	20,448	13,784
Hedging accounts	1,339	827
Crops held for sale or feed	70,338	80,262
Crops under government loan	0	0
Market livestock held for sale	1,746	5,169
Other current assets	0	0
Total current farm assets	128,860	140,742
Intermediate Farm Assets		
Breeding livestock	281,775	292,396
Machinery and equipment	86,539	86,021
Titled vehicles	2,429	2,286
Other intermediate assets	7,119	7,694
Total intermediate farm assets	377,862	388,397
Long Term Farm Assets		
Farm land	345,647	345,647
Buildings and improvements	78,997	89,994
Other long-term assets	11,527	11,441
Total long-term farm assets	436,170	447,083
Total Farm Assets	942,893	976,222
Total Nonfarm Assets	93,231	95,391
Total Assets	1,036,124	1,071,613
Liabilities		
Current Farm Liabilities		
Accrued interest	2,879	3,853
Accounts payable	14,013	15,882
Current notes	41,773	12,856
Government crop loans	0	0
Principal due on term debt	21,622	25,860
Total current farm liabilities	80,288	58,451
Total intermediate farm liabs	66,789	88,366
Total long term farm liabilities	319,514	311,696
Total farm liabilities	466,591	458,513
Total nonfarm liabilities	0	0
Total liabilities	466,591	458,513
Net worth (farm and nonfarm)	569,533	613,100
Net worth change		43,567
Ratio Analysis		
Current farm liabilities / assets	62 %	42 %
Curr. & interm farm liab. / assets	29 %	28 %
Long term farm liab. / assets	73 %	70 %
Total debt to asset ratio	45 %	43 %

Table 12

Balance Sheet at Market Values
2006 MI Grazing Dairy 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	12,233	16,171
Prepaid expenses & supplies	15,899	16,243
Growing crops	6,857	8,286
Accounts receivable	20,448	13,784
Hedging accounts	1,339	827
Crops held for sale or feed	70,338	80,262
Crops under government loan	0	0
Market livestock held for sale	1,746	5,169
Other current assets	0	0
Total current farm assets	128,860	140,742
Intermediate Farm Assets		
Breeding livestock	281,775	292,396
Machinery and equipment	185,151	211,632
Titled vehicles	4,601	4,155
Other intermediate assets	7,226	7,801
Total intermediate farm assets	478,753	515,985
Long Term Farm Assets		
Farm land	461,273	493,987
Buildings and improvements	135,544	133,034
Other long-term assets	11,527	11,441
Total long-term farm assets	608,344	638,462
Total Farm Assets	1,215,957	1,295,189
Total Nonfarm Assets	148,792	151,524
Total Assets	1,364,749	1,446,713
Liabilities		
Current Farm Liabilities		
Accrued interest	2,879	3,853
Accounts payable	14,013	15,882
Current notes	41,773	12,856
Government crop loans	0	0
Principal due on term debt	21,622	25,860
Total current farm liabilities	80,288	58,451
Total intermediate farm liabs	66,789	88,366
Total long term farm liabilities	319,514	311,696
Total farm liabilities	466,591	458,513
Total nonfarm liabilities	0	0
Total liabs excluding deferreds	466,591	458,513
Total deferred liabilities	0	0
Total liabilities	466,591	458,513
Retained earnings	569,533	613,100
Market valuation equity	328,625	375,100
Net worth (farm and nonfarm)	898,158	988,201
Net worth excluding deferreds	898,158	988,201
Net worth change		90,042
Ratio Analysis		
Current farm liabilities / assets	62 %	42 %
Curr. & interm farm liab. / assets	24 %	22 %
Long term farm liab. / assets	53 %	49 %
Total debt to asset ratio	34 %	32 %
Debt to assets excl deferreds	34 %	32 %

Table 13

Statement Of Cash Flows
2006 MI Grazing Dairy Farms
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	7
Beginning cash (farm & nonfarm)	12,233
Cash From Operating Activities	
Gross cash farm income	388,894
Net nonfarm income	1,751
Total cash farm expense	-300,764
Apparent family living expense	-35,043
Income and social security tax	-1,683
Cash from operations	53,155
Cash From Investing Activities	
Sale of breeding livestock	-
Sale of machinery & equipment	943
Sale of titled vehicles	-
Sale of farm land	-
Sale of farm buildings	-
Sale of other farm assets	17
Sale of nonfarm assets	-
Purchase of breeding livestock	-709
Purchase of machinery & equip.	-31,873
Purchase of titled vehicles	-
Purchase of farm land	-57
Purchase of farm buildings	-23,222
Purchase of other farm assets	-592
Purchase of nonfarm assets	-4,653
Cash from investing activities	-60,146
Cash From Financing Activities	
Money borrowed	47,141
Cash gifts and inheritances	23,322
Principal payments	-58,062
Dividends paid	-
Gifts given	-1,473
Cash from financing activities	10,929
Net change in cash balance	3,938
Ending cash (farm & nonfarm)	16,171

Table 14

Financial Standards Measures
2006 MI Grazing Dairy Farms
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	7
Liquidity	
Current ratio	2.41
Working capital	82,291
Solvency (market)	
Farm debt to asset ratio	35 %
Farm equity to asset ratio	65 %
Farm debt to equity ratio	55 %
Profitability (cost)	
Rate of return on farm assets	3.6 %
Rate of return on farm equity	2.8 %
Operating profit margin	10.9 %
Net farm income	59,241
Repayment Capacity	
Term debt coverage ratio	193 %
Capital replacement margin	36,634
Efficiency	
Asset turnover rate (cost)	33.3 %
Operating expense ratio	71.3 %
Depreciation expense ratio	8.6 %
Interest expense ratio	5.2 %
Net farm income ratio	14.9 %

Table 15

Operator and Labor Information
2006 MI Grazing Dairy 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	53.3
Average number of years farming	29.3
Results Per Operator	
Working capital	64,004
Total assets (market)	1,125,221
Total liabilities	356,621
Net worth (market)	768,600
Net worth excl deferred liabs	768,600
Gross farm income	308,383
Total farm expense	262,307
Net farm income	46,077
Net nonfarm income	1,362
Family living & tax withdrawals	28,565
Total acres owned	295.1
Total crop acres	425.5
Crop acres owned	238.5
Crop acres cash rented	187.0
Crop acres share rented	-
Total pasture acres	30.1
Labor Analysis	
Number of farms	7
Total unpaid labor hours	-
Total hired labor hours	-
Total labor hours per farm	-
Unpaid hours per operator	-
Value of farm production / hour	-
Net farm income / unpaid hour	-
Average hourly hired labor wage	-

Table 16

Financial Summary
2006 MI Grazing Dairy Farms
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	7
Income Statement	
Gross cash farm income	388,894
Total cash farm expense	300,764
Net cash farm income	88,130
Inventory change	5,101
Depreciation and capital adjust	-33,990
Net farm income	59,241
Profitability (cost)	
Labor and management earnings	29,421
Rate of return on assets	3.6 %
Rate of return on equity	2.8 %
Operating profit margin	10.9 %
Asset turnover rate	33.3 %
Profitability (market)	
Labor and management earnings	57,564
Rate of return on assets	6.4 %
Rate of return on equity	7.6 %
Operating profit margin	25.2 %
Asset turnover rate	25.4 %
Liquidity	
Ending current ratio	2.41
Ending working capital	82,291
End working capital to gross inc	21.2 %
Term debt coverage ratio	193.1 %
Expense as a percent of income	76.5 %
Interest as a percent of income	5.2 %
Solvency (cost)	
Number of farms	7
Ending farm assets	976,222
Ending farm liabilities	458,513
Ending total assets	1,071,613
Ending total liabilities	458,513
Ending net worth	613,100
Net worth change	43,567
Ending farm debt to asset ratio	47 %
Beg total debt to asset ratio	45 %
End total debt to asset ratio	43 %
Solvency (market)	
Number of farms	7
Ending farm assets	1,295,189
Ending farm liabilities	458,513
Ending total assets	1,446,713
Ending total liabilities	458,513
Ending net worth	988,201
Net worth change	90,042
Ending farm debt to asset ratio	35 %
Beg total debt to asset ratio	34 %
End total debt to asset ratio	32 %
Nonfarm Information	
Net nonfarm income	1,751
Crop Acres	
Total acres owned	379
Total crop acres	547
Total crop acres owned	307
Total crop acres cash rented	240
Total crop acres share rented	-