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**2005 Michigan Swine (Farrow to Finish)
Business Analysis Summary**

Eric Wittenberg
and
Stephen Harsh

Staff Paper 2006-32

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

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2005 Michigan TelFarm and Farm Credit Services Data
Staff Paper No. 06-32

by

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and
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by
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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 of Michigan 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 11 Michigan, farrow to finish, 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 2005 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 2005 business analysis was 161 sows, 401 acres owned and 536 acres cropped, Table 1. Additional data on farm characteristics indicated that the average weight for a finished hog was 254 pound and the average price was \$54.90 per hundredweight.

Table 1. Average Michigan Swine (Farrow to Finish) Farm Characteristics, 2002-2005

	2002	2003	2004	2005
Average number of sows	1095	364	178	161
Total acres owned	491	769	587	401
Total crop acres	800	1036	919	536
Average weight of hogs sold (lbs.)	247	252	256	254
Average price/cwt.	\$36.47	\$44.82	51.77	54.90
Number of farms	7	9	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 2005 averaged, \$92,830. This average somewhat obscures a very large range of net farm income values. The range was a negative \$4,905 to \$217,533 and the standard deviation was \$76,477.

Gross cash farm income averaged \$842,919 in 2005. The largest components of this revenue are finished feeder pigs sales which averaged \$262,399, finished raised hogs sales which averaged \$275,488 and weaning to finished hogs sales which averaged \$140,108. Government payments averaged \$44,254 per farm in 2005.

Average total cash expenses were \$681,217 in 2005 and average net cash farm income was \$161,703. Inventory levels increased and averaged \$5,050 per farm. Prepaid expenses, supplies, crops, and feeds inventories increased while accounts payable and market livestock decreased.

Table 2. Average Swine Farm Income Statement, 2002-2005

	2002	2003	2004	2005
	(\$)	(\$)	(\$)	(\$)
Gross cash farm income	1,986,148	1,001,043	1,089,291	842,919
- Total cash expense	<u>2,149,235</u>	<u>833,911</u>	<u>892,506</u>	<u>681,217</u>
= Net cash farm income	-163,087	167,132	196,785	161,703
+ Inventory change	111,150	-35853	79,912	5,050
+ Depreciation and capital adjustments	<u>-71,696</u>	<u>-113880</u>	<u>-78,960</u>	<u>-73,922</u>
= Net farm income	-123,632	17399	197,737	92,830

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 2005 averaged 7.7 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 the case in 2005. ROE performance for 2005 averaged 11.8 percent. This farm summary indicates that these farms were profitable in 2005.

Table 3 compares profitability for the years 2002 - 2005 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 2005 swine farm ROA was 7.0 percent, which was an 56 percent decrease over 2004 value. Return on equity averaged 11.8 percent. Operating profit margin measures the dollars of profit generated per dollar of revenue. In 2005, the OPM was 13.8 percent. Asset turnover measures the efficiency with which farm assets generate revenue. In 2005, this ratio was 50.8 percent. All these profitability measures indicate that on the average, 2005 was a profitable year financially.

Table 3. Average Swine Farm Profitability Indicators, 2002-2005

	2002	2003	2004	2005
	(%)	(%)	(%)	(%)
Rate of return on assets*	-3.2	0.7	16.1	7.0
Rate of return on equity	-14.8	-10.2	52.4	11.8
Operating profit margin	-7.0	1.4	25.3	13.8
Asset turnover rate*	45.6	49.8	63.5	50.8

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

Table 4 compares profitability measures across the years 2002 - 2005 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 2005 was 7.7 percent, a positive change when compared to 2002 and 2003. Return on equity (ROE) for 2005 was 9.8 percent. Operating profit margin (OPM) measures the dollars of profit generated per dollar of revenue. In 2005 the OPM was 28.4 percent. In 2005 these swine farms are generating good profit per dollar of revenue.

Asset turnover ratio measures the efficiency with which farm assets generate revenue. In 2005, the asset turnover ratio was 27.2 percent. This was a slight decrease when compared with 2004, higher prices for production or lower total asset value will increase ATO. This is a slight decrease of 12 percent, meaning that the farm assets generated less dollars per dollar invested in farm assets. The trend with respect to profitability in 2005 was good.

Table 4. Average Swine Farm Profitability Indicators, 2002-2005

	2002	2003	2004	2005
	(%)	(%)	(%)	(%)
Rate of return on assets*	-0.1	2.8	10.1	7.7
Rate of return on equity	-3.6	1.7	13.9	9.8
Operating profit margin	-0.5	11.0	32.4	28.4
Asset turnover rate*	31.2	25.1	31.0	27.2

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

Table 5

Crop Production and Marketing Summary
Michigan Swine (Farrow to Finish), 2005
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	11
Acreage Summary	
Total acres owned	401
Total crop acres	536
Crop acres owned	269
Crop acres cash rented	267
Crop acres share rented	-
Total pasture acres	-
Average Price Received (Cash Sales Only)	
Corn per bushel	2.81
Soybeans per bushel	6.03

Table 6

Farm Income Statement

Michigan Swine (Farrow to Finish), 2005

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

	Avg. Of All Farms
Number of farms	11
Cash Farm Income	
Beans, Navy	6,025
Corn	9,977
Hay, Mixed	93
Soybeans	34,513
Straw	353
Sugar Beets	10,237
Wheat, Winter	2,717
Beef, Custom Fed	311
Hogs, Farrow-Fin, Raised Hogs	275,488
Hogs, Feeder Pigs, Feeder Pigs	20,522
Hogs, Finish Feeder Pigs	241,877
Chickens, Pullets	118
Hogs, Weaning Pigs, Weaning Pigs	552
Hogs, Weaning to Feeder	852
Hogs, Weaning to Finish	140,108
Cull breeding livestock	22,669
Misc. livestock income	216
Direct & CC govt payments	3,988
CRP payments	1,818
Other government payments	42,436
Custom work income	17,978
Patronage dividends, cash	213
Insurance income	4,578
Other farm income	5,280
Gross Cash Farm Income	842,919

Table 6

Farm Income Statement (Continued)
Michigan Swine (Farrow to Finish), 2005
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	11
Cash Farm Expense	
Seed	22,729
Fertilizer	26,298
Crop chemicals	21,464
Crop insurance	1,551
Drying fuel	6,924
Crop marketing	201
Crop miscellaneous	714
Feeder livestock purchase	129,740
Purchased feed	190,409
Breeding fees	1,632
Veterinary	7,124
Supplies	4,185
Livestock utilities	390
Hauling and trucking	152
Livestock marketing	8,507
Livestock miscellaneous	201
Interest	30,752
Packaging and supplies	705
Fuel & oil	21,970
Repairs	34,458
Custom hire	31,877
Hired labor	31,180
Land rent	22,318
Machinery leases	18,166
Real estate taxes	8,304
Personal property taxes	121
Farm insurance	9,616
Utilities	23,892
Dues & professional fees	3,588
Hedging account deposits	1,164
Miscellaneous	20,885
Total cash expense	681,217
Net cash farm income	161,703
Inventory Changes	
Crops and feed	5,045
Market livestock	-15,283
Accounts receivable	3,802
Prepaid expenses and supplies	14,839
Accounts payable	-3,353
Total inventory change	5,050
Net operating profit	166,753
Depreciation and Other Capital Adjustments	
Breeding livestock	-1,578
Machinery and equipment	-38,348
Buildings and improvements	-33,997
Other farm capital	0
Total depr. and other capital adj	-73,922
Net farm income	92,830

Table 7

Inventory Changes
Michigan Swine (Farrow to Finish), 2005
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	11
Net cash farm income	161,703
Crops and Feed	
Ending inventory	119,952
Beginning inventory	114,907
Inventory change	5,045
Market Livestock	
Ending inventory	207,428
Beginning inventory	222,711
Inventory change	-15,283
Accts Receivable & Other Current Assets	
Ending inventory	20,974
Beginning inventory	17,172
Inventory change	3,802
Prepaid Expenses and Supplies	
Ending inventory	70,843
Beginning inventory	56,004
Inventory change	14,839
Accounts Payable & Accrued Expenses	
Beginning inventory	13,865
Ending inventory	17,218
Inventory change	-3,353
Total inventory change	5,050
Net operating profit	166,753

Table 8 Depreciation and Other Capital Adjustments
 Michigan Swine (Farrow to Finish), 2005
 (Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	11
Net operating profit	166,753
Breeding Livestock	
Ending inventory	43,431
Capital sales	248
Beginning inventory	43,570
Capital purchases	1,686
Depreciation, capital adjust.	-1,578
Machinery and Equipment	
Ending inventory	108,290
Capital sales	640
Beginning inventory	69,945
Capital purchases	77,332
Depreciation, capital adjust.	-38,348
Buildings and Improvements	
Ending inventory	88,739
Capital sales	-
Beginning inventory	69,960
Capital purchases	52,776
Depreciation, capital adjust.	-33,997
Other Capital Assets	
Ending inventory	23,890
Capital sales	15,131
Beginning inventory	38,735
Capital purchases	286
Depreciation, capital adjust.	0
Total depreciation, capital adj.	-73,922
Net farm income	92,830

Table 9

Profitability Measures
Michigan Swine (Farrow to Finish), 2005
(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	92,830
Labor and management earnings	68,717
Rate of return on assets	7.0 %
Rate of return on equity	11.8 %
Operating profit margin	13.8 %
Asset turnover rate	50.8 %
Interest on farm net worth	24,113
Farm interest expense	30,061
Value of operator lbr and mgmt.	51,626
Return on farm assets	71,265
Average farm assets	1,013,203
Return on farm equity	41,204
Average farm equity	347,929
Value of farm production	514,756
	Avg. Of All Farms
Number of farms	11
Profitability (assets valued at market)	
Net farm income	167,772
Labor and management earnings	96,376
Rate of return on assets	7.7 %
Rate of return on equity	9.8 %
Operating profit margin	28.4 %
Asset turnover rate	27.2 %
Interest on farm net worth	71,395
Farm interest expense	30,061
Value of operator lbr and mgmt.	51,626
Return on farm assets	146,206
Average farm assets	1,891,788
Return on farm equity	116,146
Average farm equity	1,189,920
Value of farm production	514,756

Table 10

Liquidity Measures
Michigan Swine (Farrow to Finish), 2005
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	11
Liquidity (cash)	
Net cash farm income	161,703
Net nonfarm income	8,976
Family living and taxes	100,295
Principal due on long term debt	21,396
Cash available for interm. debt	48,988
Average intermediate debt	152,780
Years to turnover interm. debt	3.1
Expense as a % of income	81 %
Interest as a % of income	4 %
Working capital to gross income	25 %
Liquidity (accrual)	
Total accrual farm income	836,483
Total accrual operating expense	669,731
Net accrual operating income	166,753
Net nonfarm income	8,976
Family living and taxes	100,295
Principal due on long term debt	21,396
Available for intermediate debt	54,038
Average intermediate debt	152,780
Years to turnover interm. debt	2.8
Expense as a % of income	80 %
Interest as a % of income	4 %
Working capital to gross income	25 %

Table 11

Balance Sheet at Cost Values
Michigan Swine (Farrow to Finish), 2005
(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	24,206	8,323
Prepaid expenses & supplies	56,004	70,843
Growing crops	2,100	2,018
Accounts receivable	10,506	15,231
Hedging accounts	4,566	3,724
Crops held for sale or feed	114,907	119,952
Crops under government loan	0	0
Market livestock held for sale	222,711	207,428
Other current assets	0	0
Total current farm assets	434,998	427,520
Intermediate Farm Assets		
Breeding livestock	43,570	43,431
Machinery and equipment	69,945	108,290
Titled vehicles	0	0
Other intermediate assets	36,321	21,386
Total intermediate farm assets	149,837	173,106
Long Term Farm Assets		
Farm land	315,250	362,078
Buildings and improvements	69,960	88,739
Other long-term assets	2,414	2,505
Total long-term farm assets	387,623	453,322
Total Farm Assets	972,459	1,053,948
Total Nonfarm Assets	138,520	182,641
Total Assets	1,110,979	1,236,589
Liabilities		
Current Farm Liabilities		
Accrued interest	3,190	2,499
Accounts payable	10,675	14,719
Current notes	138,519	152,985
Government crop loans	0	0
Principal due on term debt	47,679	50,404
Total current farm liabilities	200,063	220,607
Total intermediate farm liabs	114,728	137,961
Total long term farm liabilities	307,776	349,414
Total farm liabilities	622,567	707,982
Total nonfarm liabilities	25,975	27,170
Total liabilities	648,542	735,152
Net worth (farm and nonfarm)	462,437	501,437
Net worth change		39,000
Ratio Analysis		
Current farm liabilities / assets	46 %	52 %
Curr. & interm farm liab. / assets	54 %	60 %
Long term farm liab. / assets	79 %	77 %
Total debt to asset ratio	58 %	59 %

Table 12

Balance Sheet at Market Values
Michigan Swine (Farrow to Finish), 2005
(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	24,206	8,323
Prepaid expenses & supplies	56,004	70,843
Growing crops	2,100	2,018
Accounts receivable	10,506	15,231
Hedging accounts	4,566	3,724
Crops held for sale or feed	114,907	119,952
Crops under government loan	0	0
Market livestock held for sale	222,711	207,428
Other current assets	0	0
Total current farm assets	434,998	427,520
Intermediate Farm Assets		
Breeding livestock	43,570	43,565
Machinery and equipment	279,251	321,480
Titled vehicles	0	2,727
Other intermediate assets	36,321	21,386
Total intermediate farm assets	359,142	389,158
Long Term Farm Assets		
Farm land	756,970	828,472
Buildings and improvements	245,561	281,468
Other long-term assets	15,918	44,368
Total long-term farm assets	1,018,449	1,154,309
Total Farm Assets	1,812,589	1,970,986
Total Nonfarm Assets	238,600	304,105
Total Assets	2,051,189	2,275,092
Liabilities		
Current Farm Liabilities		
Accrued interest	3,190	2,499
Accounts payable	10,675	14,719
Current notes	138,519	152,985
Government crop loans	0	0
Principal due on term debt	47,679	50,404
Total current farm liabilities	200,063	220,607
Total intermediate farm liabs	114,728	137,961
Total long term farm liabilities	307,776	349,414
Total farm liabilities	622,567	707,982
Total nonfarm liabilities	25,975	27,170
Total liabs excluding deferreds	648,542	735,152
Total deferred liabilities	46,678	41,376
Total liabilities	695,220	776,528
Retained earnings	462,437	501,437
Market valuation equity	893,532	997,127
Net worth (farm and nonfarm)	1,355,969	1,498,563
Net worth excluding deferreds	1,402,647	1,539,939
Net worth change		142,595
Ratio Analysis		
Current farm liabilities / assets	46 %	52 %
Curr. & interm farm liab. / assets	40 %	44 %
Long term farm liab. / assets	30 %	30 %
Total debt to asset ratio	34 %	34 %
Debt to assets excl deferreds	32 %	32 %

Table 13

Statement Of Cash Flows
Michigan Swine (Farrow to Finish), 2005
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	11
Beginning cash (farm & nonfarm)	24,339
Cash From Operating Activities	
Gross cash farm income	842,919
Net nonfarm income	8,976
Total cash farm expense	-681,217
Apparent family living expense	-100,250
Income and social security tax	-45
Cash from operations	70,384
Cash From Investing Activities	
Sale of breeding livestock	248
Sale of machinery & equipment	640
Sale of titled vehicles	-
Sale of farm land	1,136
Sale of farm buildings	-
Sale of other farm assets	15,131
Sale of nonfarm assets	28
Purchase of breeding livestock	-1,686
Purchase of machinery & equip.	-77,332
Purchase of titled vehicles	-
Purchase of farm land	-47,465
Purchase of farm buildings	-52,776
Purchase of other farm assets	-286
Purchase of nonfarm assets	-2,999
Cash from investing activities	-165,362
Cash From Financing Activities	
Money borrowed	538,007
Cash gifts and inheritances	5,808
Principal payments	-454,336
Dividends paid	-
Gifts given	-10,290
Cash from financing activities	79,188
Net change in cash balance	-15,789
Ending cash (farm & nonfarm)	8,551

Table 14

Financial Standards Measures
Michigan Swine (Farrow to Finish), 2005
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	11
Liquidity	
Current ratio	1.94
Working capital	206,913
Solvency (market)	
Farm debt to asset ratio	38 %
Farm equity to asset ratio	62 %
Farm debt to equity ratio	61 %
Profitability (cost)	
Rate of return on farm assets	7.0 %
Rate of return on farm equity	11.8 %
Operating profit margin	13.8 %
Net farm income	92,830
Repayment Capacity	
Term debt coverage ratio	182 %
Capital replacement margin	53,532
Efficiency	
Asset turnover rate (cost)	50.8 %
Operating expense ratio	76.5 %
Depreciation expense ratio	8.8 %
Interest expense ratio	3.6 %
Net farm income ratio	11.1 %

Table 15

Operator and Labor Information
Michigan Swine (Farrow to Finish), 2005
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	11
Operator Information	
Average number of operators	1.6
Average age of operators	51.1
Average number of years farming	26.7
Results Per Operator	
Working capital	126,447
Total assets (market)	1,390,334
Total liabilities	474,545
Net worth (market)	915,789
Net worth excl deferred liabs	941,074
Gross farm income	511,184
Total farm expense	454,455
Net farm income	56,730
Net nonfarm income	5,486
Family living & tax withdrawals	61,291
Total acres owned	245.1
Total crop acres	327.7
Crop acres owned	164.6
Crop acres cash rented	163.1
Crop acres share rented	-
Total pasture acres	-
Labor Analysis	
Number of farms	11
Total unpaid labor hours	3,809
Total hired labor hours	1,951
Total labor hours per farm	5,759
Unpaid hours per operator	2,328
Value of farm production / hour	89.38
Net farm income / unpaid hour	24.37
Average hourly hired labor wage	16.17
Partnerships & LLCs	
Number of farms	6
Number of operators	2.0
Owner withdrawals per farm	-
Withdrawals per operator	-

Table 16

Financial Summary
Michigan Swine (Farrow to Finish), 2005
(Farms Sorted By Rate of Return on Assets - Mkt)

	Avg. Of All Farms
Number of farms	11
Income Statement	
Gross cash farm income	842,919
Total cash farm expense	681,217
Net cash farm income	161,703
Inventory change	5,050
Depreciation and capital adjust	-73,922
Net farm income	92,830
Profitability (cost)	
Labor and management earnings	68,717
Rate of return on assets	7.0 %
Rate of return on equity	11.8 %
Operating profit margin	13.8 %
Asset turnover rate	50.8 %
Profitability (market)	
Labor and management earnings	96,376
Rate of return on assets	7.7 %
Rate of return on equity	9.8 %
Operating profit margin	28.4 %
Asset turnover rate	27.2 %
Liquidity	
Ending current ratio	1.94
Ending working capital	206,913
End working capital to gross inc	24.5 %
Term debt coverage ratio	181.8 %
Expense as a percent of income	80.1 %
Interest as a percent of income	3.6 %
Solvency (cost)	
Number of farms	11
Ending farm assets	1,053,948
Ending farm liabilities	707,982
Ending total assets	1,236,589
Ending total liabilities	735,152
Ending net worth	501,437
Net worth change	39,000
Ending farm debt to asset ratio	67 %
Beg total debt to asset ratio	58 %
End total debt to asset ratio	59 %
Solvency (market)	
Number of farms	11
Ending farm assets	1,970,986
Ending farm liabilities	745,559
Ending total assets	2,275,092
Ending total liabilities	776,528
Ending net worth	1,498,563
Net worth change	142,595
Ending farm debt to asset ratio	38 %
Beg total debt to asset ratio	34 %
End total debt to asset ratio	34 %
Nonfarm Information	
Net nonfarm income	8,976
Crop Acres	
Total acres owned	401
Total crop acres	536
Total crop acres owned	269
Total crop acres cash rented	267
Total crop acres share rented	-