

Summary of Key Ratio Calculations and Benchmarks

Liquidity Analysis	Calculation	Green	Yellow	Red
Current Ratio*	Total Current Farm Assets / Total Current Farm Liabilities	> 1.50	1.00 to 1.50	< 1.00
Working Capital*	Total Current Farm Assets – Total Current Farm Liabilities	compare to business expenses, absolute amount depends on scope of operation		
Solvency Analysis				
Debt / Asset Ratio*	Total Farm Liabilities / Total Farm Assets	< 30%	30% to 55%	> 55%
Equity / Asset Ratio*	Total Farm Equity / Total Farm Assets	> 55%	30% to 55%	< 30%
Debt / Equity Ratio*	Total Farm Liabilities / Total Farm Equity	< 42%	42% to 122%	> 122%
Profitability Analysis				
Operating Profit Margin Ratio*	(NFIFO* + Farm Interest Expense - Operator Management Fee) / Gross Revenue	> 25%	10% to 25%	< 10%
Rate of Return on Farm Assets* (ROA) (mostly owned)	(NFIFO** + Farm Interest Expense - Operator Management Fee) / Average Total Farm Assets	> 5%	1% to 5%	< 1%
Rate of Return on Farm Assets *(ROA) (mostly rented/leased)	(NFIFO* + Farm Interest Expense - Operator Management Fee) / Average Total Farm Assets	> 12%	3% to 12%	< 3%
Rate of Return on Farm Equity* 8 (ROE)	(NFIFO* - Operator Management Fee) / Average Total Farm Equity	look at trends and compare to other farm and non-farm investments		
Repayment Analysis				
Term Debt and Lease Coverage Ratio*	[(NFIFO* + Non-Farm Earnings + Depreciation Expense + Interest on Term Debts and Capital Leases) - Income Tax Expense - Family Living Withdrawals] / Scheduled Annual Principal and Interest Payments on Term Debt and Capital Leases	> 150%	110% to 150%	< 110%
Debt Payment / Income Ratio	Scheduled Annual Principal and Interest Payments on Term Debt and Capital Leases / (NFIFO* + Gross Non-Farm Revenue + Depreciation Expense + Interest on Term Debts and Capital Leases)	< 25%	25% to 50%	> 50%
Financial Efficiency				
Operating Expense / Revenue Ratio* (mostly owned)	Operating Expenses [excluding interest and depreciation] / Gross Revenue	< 65%	65% to 80%	> 80%
Operating Expense / Revenue Ratio* (mostly rented/leased)	Operating Expenses [excluding interest and depreciation] / Gross Revenue	< 75%	75% to 85%	> 85%
Interest Expense Ratio*	Interest Expense / Gross Revenue	< 12%	12% to 20%	> 20%
Depreciation Expense Ratio*	Depreciation Expense / Gross Revenue	compare to capital replacement and term debt repayment margin		
Asset Turnover Ratio*	Gross Revenue / Average Total Farm Assets	depends heavily on type of operation and whether it is owned / leased		
Net Farm Income From Operations Ratio*	NFIFO* / Gross Revenue	look at trends, varies due to cyclical nature of agricultural prices and incomes		

* Part of the "Sweet Sixteen" financial ratios recommended by the Farm Financial Standards Committee.

**NFIFO = Net Farm Income From Operations excluding gains or losses from the disposal of farm capital assets.