The Farm Financial Standards Council has identified several key measures to analyze the financial strength of a farm business. These measures are in the areas of:

1. liquidity,
2. solvency,
3. profitability, and
4. financial efficiency.

The averages for these key measures for 2,536 Illinois farm operators can be found in Table 1. These measures are also calculated by farm type. Due to the effects that weather and other outside factors may have on a farm business for any one year, it is better to monitor these measures over time and to identify trends than it is to rely too heavily on these measures for any one year when making business decisions.
Let’s take the above four areas and consider the measures that can be used to analyze the financial strength of a farm business.

**Liquidity** is an assessment of a farm’s ability to meet current cash-flow needs. The amount of working capital (current assets less current liabilities) and the current ratio (current assets divided by current liabilities) are two frequently used measures of liquidity. The median amount of working capital as of December 31, 2012 for the 2,536 farm operators was $396,050, up over $55,000 from $340,554 a year earlier. Hog farms had the greatest level of working capital, averaging $429,242, while dairy farms had the least, averaging $133,433. Most of the assets of a dairy farm—the dairy herd, buildings, and land—are noncurrent assets. The median current ratio for all the farms was 3.07, up from 2.76 a year ago. Grain farms recorded the highest (most healthy) current ratio, and beef farms the lowest. The 2012 current ratio was the highest for any year during the last 15 years.

**Solvency** is a measure of the farm’s overall financial strength and risk-taking ability. The average net worth of the 2,536 farm operators at the end of 2012 was $2,750,068, up from $2,287,223 the year...
before. Average farm and nonfarm incomes in 2012 were above family living requirements, thus enabling net worth increases. Increasing land values have also boosted the net worth of those operators who own land. Hog farms had the highest net worth, followed by grain farms, with dairy farms recording the lowest for this year.

The debt-to-farm equity and debt-to-farm asset indicators show how debt capital is combined with equity capital. This is useful in looking at the risk exposure of the business. The median debt-to-farm asset percentage for all farms was 18.2. The debt-to-farm asset percentage ranged from 17.7 for grain farms to 35.4 for beef farms. The median debt-to-farm asset level of 18.2% was at its lowest level for at least 15 years.

A measure of a farm’s profitability is useful in examining its ability to meet family living demands and retire term debt. It is also useful in measuring the farm’s ability to utilize assets and equity to generate income. The median return on farm assets for the 2,536 farm operators was 8.3 percent, down from 9.5 percent a year earlier. Grain farms recorded the highest returns, averaging 8.5 percent, while dairy farms recorded the lowest, averaging 3.5 percent. Return on farm equity in 2012 ranged from 10.2 percent for grain farms to 3.1 percent for dairy farms. The median was 9.8 percent, down from 11.5 percent in 2011.

The interest, operating, and depreciation expense ratios relate these various expense categories as a percentage of the value of farm production. The farm operating income ratio measures the return to labor, capital, and management as a percentage of the value of farm production. These measures can be used to evaluate the financial efficiency of the farm business. The interest-expense ratio averaged 1.9 percent for the 2,536 farm operators, ranging from 1.8 percent for grain farms to 5.7 percent for beef farms. The 1.9 percent was down from 2.1 percent in 2011. The 2012 figure is the lowest since at least 1995. The farm operating income ratio ranged from a high of 34.1 percent for grain farms to 19.0 percent for dairy farms. The median for all farms in 2012 was 33.5 percent, down from 35.0 percent in 2011. The 2008 through 2012 5-year average farm operating income ratio is 30.1 percent. The 2012 farm operating income ratio is above the 5-year average.

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