

# Farming Together: A Transition Planning Discussion

Risk and Profit Seminar Series

Ashlee Westerhold and David Kehler



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## A Farm Transition Discussion

- Why are you Here??



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## The Office of Farm and Ranch Transition

- Mission: Keep Kansas Families in Farming and Ranching
- Deliverables:
  1. Land-Link
  2. One-on-one consultations
  3. Beginning Farmer and Rancher Trainings

## One-on-One Consultations

Provide **one-on-one technical services** to facilitate transition planning by resolving family conflicts, evaluating different succession options, and facilitating meetings with professionals

## Why should I do a Farm Analysis?

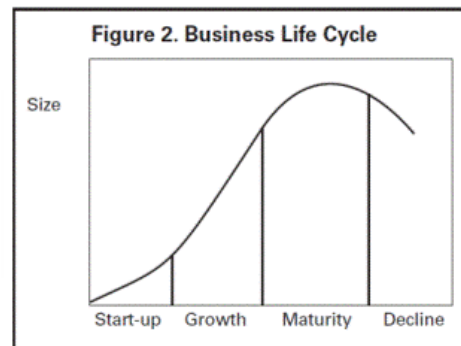
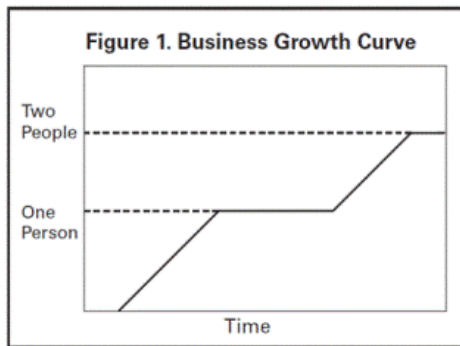
- What can the operation afford?
  - Retirement income?
  - Incoming family (s) living?
  - Existing and new debt?

## Why should I do a Farm Analysis?

- What if the operation can not support the plan?
  - Can the incoming family (s) add value?
  - Can the incoming family (s) cover living with off-farm income?
  - Existing and new debt?

# Opportunities in Succession Planning

- Young person adding value



## Farm Analysis Tools

- Finpack
  - Balance sheet
  - Budgets
  - Whole farm plan
  - Resulting in an annual cash flow statement.

<b>Current Assets</b>			Value
Cash and checking			-
Prepaid expenses and supplies			-
Growing crops (Schd C)			148,760
Accounts receivable			-
Hedging accounts			-
Other current assets (Schd F)			3,000
Crops (Schd G)	Quantity	Value/Unit	
Corn	2,000	6.00/bu.	12,000
Hay	750	60.00/ton	45,000
Oats	3,000	5.00/bu.	15,000
Mkt Ivst (Schd H)	No.	Value/Unit	
Beef Bulls	10	3000.00/head	30,000
Beef Calves	105	250.00/cwt.	52,500
Finish Beef	13	220.00/cwt.	31,460
<b>Total Current Assets</b>			<b>337,720</b>

<b>Current Liabilities</b>				Balance
Accrued interest				26,363
Payables & accr exp (Schd T)				20,000
	Int	P & I	Principal	
Current loans (Schd U)	Rate	Due	Balance	
Front-LOC	9.00	-		121,000
Principal due within 12 months on term liabilities				53,103
<b>Total Current Liabilities</b>				<b>220,466</b>



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### Intermediate Assets

		Market
	No.	Value
Brdg Ivst (Schd I)		
Bulls	5	17,500
Spring cows	130	260,000
Fall cows-bred	90	180,000
Fall replacement hfrs	25	37,500
Machinery (Schd J)		150,050
Titled vehicles (Schd K)		24,000
Other intermediate assets		-
<b>Total Intermediate Assets</b>		<b>669,050</b>

### Intermediate Liabilities (Schd V)

Loan	Int	Principal	P & I	Principal	Intermed
	Rate	Balance	Due	Due	Balance
Front-Cattle loan	4.75	14,806	15,523	14,731	75
Front-JD Tractor	4.99	31,540	11,599	9,827	21,713
<b>Total Intermediate Liabilities</b>					<b>21,788</b>



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<b>Long Term Assets</b>			<b>Long Term Liabilities (Schd W)</b>					
	Acres	Market Value	Loan	Int Rate	Principal Balance	P & I Due	Principal Due	Lg Term Balance
Land (Schd M)								
Herman's pasture/cr	100	350,000	Front-Shop/rebuild	5.43	143,599	14,998	6,822	136,777
Goat fld pasture/crop	80	240,000	Front-Home/acreage	3.95	236,213	18,671	8,164	228,049
Land next to house	142	497,000	Front-Across road	3.95	392,492	31,025	13,559	378,933
Across from house pas/	160	480,000						
House, farm bldgs	10	450,000						
Bldgs & improve. (Schd N)		17,000						
Other long term assets		-						
<b>Total Long Term Assets</b>		<b>2,034,000</b>	<b>Total Long Term Liabilities</b>					<b>743,759</b>
<b>Total Farm Assets</b>		<b>3,040,770</b>	<b>Total Farm Liabilities</b>					<b>986,013</b>
Personal Assets (Schd P)		100,000	Personal Liabilities (Schd X)					63,960
			Total Liabilities					1,049,973
<b>Total Assets</b>		<b>3,140,770</b>	<b>Net Worth</b>					<b>2,090,797</b>

**Schedule Z: Ratio analysis**

	Market
Current ratio	1.53
Current ratio (business and personal)	1.47
Working capital	117,254
Working capital (business and personal)	110,014
Current percent in debt	65 %
Intermediate percent in debt	3 %
Long term percent in debt	37 %
Personal percent in debt	64 %
Total debt to asset ratio	33 %
Total equity to asset ratio	67 %
Total debt to equity ratio	0.50

### CASH FLOW

Net cash farm income	(C)	41,328
Nonfarm income	(+)	12,500
Family living	(-)	85,000
Income taxes	(-)	956
Cash available for principal payments	(=)	-32,129
Farm interest paid	(+)	39,102
Cash avail. for principal and interest	(=)	6,974
Frontier Farm Credit-Cattle loan		15,523
Frontier Farm Credit-JD Tractor		11,599
Frontier Farm Credit-Shop/rebuild		14,998
Frontier Farm Credit-Home/acreage		18,671
Frontier Farm Credit-Across road		31,025
Com Fed Credit Union-Expedition		4,968
AES-student loan		2,640
Frontier Farm Credit-Rental house		2,200
Operating interest		7,000
Total scheduled principal and interest	(-)	108,624
Cash available after loan payments	(=)	-101,650
Annual capital replacement		1
Principal paid on intermediate debt		24,845
Cash required for replacement	(-)	-
<b>Cash surplus or deficit</b>	<b>(=)</b>	<b>-101,650</b>

## Additional tools

- 3 year schedule F
- End of year projection



Example

Schedule F

3

YEAR

Income	2022	2021	2020	AVERAGE
Gross Income	\$ 367,818	\$ 346,866	\$ 316,279	\$ 343,654.33
Expense	2022	2021	2020	AVERAGE
Total Expenses	\$ 323,417	\$ 317,742	\$ 237,973	\$ 293,044.00
CASH FARM PROFIT (LOSS)	\$ 66,635	\$ 87,986	\$ 106,937	\$ 87,186.00
NET FARM PROFIT (LOSS)	\$ 44,401	\$ 29,124	\$ 78,306	\$ 50,610.33
Expense to income ratio	0.72	0.64	0.54	0.64
w/out depreciation/interest				
Interest to Gross income %	0.09	0.11	0.12	0.11

Projected Cash Flow for

Example

Time period

8-1-24 - 12/31/24

Date completed

8/1/24

Summary of Totals These total will come from the following pages of details.

Farm

Projected Income

\$1,027,875.00

Projected Expenses

\$971,464.00

Amount left to cover accounts payable, current loans and loan payments.

\$56,411

Accounts payable

\$700

Current loans, including operating loans and interest due

\$934,252

Intermediate and long term loan payments due by 12/31

\$34,152

Cash on hand

\$890,516

Projected Balance

-\$22,177



## Key Issues in Financial Analysis

- Lack of separation of business and personal
- Misuse of operating notes
- Lack of assets outside of farm operation
- Lack of cash flow
- Lack of income streams for two families

## Affordability

- KFMA estimates close to \$90,000 for family living expenses not including taxes
- The farm would need to have net farm incomes close to \$200,000 to afford the two families
- Additionally, farm kids need to make enough money to be able to buy out parents

Questions??

## Kansas Ag Mediation Service Farm Analyst Program

- 1-800-321-3276
- [ksre.k-state.edu/kams](http://ksre.k-state.edu/kams)
- David Kehler 316-377-9470
- [dkebler@ksu.edu](mailto:dkebler@ksu.edu)

## Statistics of Family-Owned Businesses

- 30% of family businesses survive the transition from first to second generation ownership.
- 12% survive the transition from second to third generation.
- Only 13 percent of family businesses remain in the family over 60 years.
- And 47% of family business owners expecting to retire in five years DO NOT have a successor.

## Current Kansas Situation

- 84.6% of Kansas Farms are Family-Owned
- The average age of a Kansas primary operator is 58.1 years old
- 66% of all Kansas primary operators are over the age of 55 which is higher than the national average

## Key Issues in Succession Planning

- Lack of transparency
- Assumptions made
- Lack of management decisions for incoming generation
- Lack of time to plan
- Lack of motivation

## Set Ground Rules/Expectations

- Start and end on time.
- No cell phones.
- No side conversations or comments.
- Everyone is encouraged to participate.
- Listen without judging; hear each other out.
- Determine what stays within the group and what can be shared, and who it can be shared with.
- Stick to the agenda.
- Honor the commitments and decisions made by the group.

## Topic of Conversations for Family Meeting

- Legacy of the Farm
- Values of the Farm
- Goals
- Identify Steps of Succession Planning
- Financial Situation
- Potential Transition Ideas
- Estate Planning

## Contact Me

[agkansitions@ksu.edu](mailto:agkansitions@ksu.edu)

(785) 532-4526

[www.AgKansitions.org](http://www.AgKansitions.org)