

How Do You Determine if Your Farm Can Take on a New Partner?

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Is This Going to be a Marriage Made in Heaven or One that Ends in Divorce?

- Can We Get Along?
- Owner Generation:
 - How do we want to live in retirement, what are our needs, financially, medically, community support?
- Successor/New Partner
 - What do we need/expect to survive while raising a family?
 - What are the expectations down the road of Mom & Dad, non-farm heirs, spouse, farm labor/employees?

Double C's

- Communication
 - Can both parties communicate with each other?
 - Do they hear and listen?
 - “We” vs. “You”, “Me”, “I”
 - Discussion vs. Argument
 - Agreement on how to settle disputes
 - Spousal involvement
- Sounds like Pre-Marital Counseling

Double C's

- Commonalities & Differences
 - Visions, Goals, Objectives
 - Are there any similarities?
 - What are the differences?
 - Can these be settled and dealt with amicably?
 - Work Schedule expectations
 - Hours worked in a day, vacation, tasks

You think you are going to eat off my plate? What do you bring to the table?

- What does the new partner bring to the table?
 - How is the successor generation/new partner going to contribute?
 - How can they increase the value of the farm/business?
 - Not necessarily money but Value.

Financials

- What do we need?
 - Annual Balance Sheets
 - Accrual Adjusted Annual Income Statements
 - (accounting develops these once placed between the balance sheets)
 - Should also include:
 - Develop(ed) Budgets for Farm/Business Enterprise(s)
 - Develop(ed) Long Range Financial Develop(ed) Month-to-Month Cash Flow if required
 - Family Living Budget
 - Owner Generation to live how they would like to in retirement
 - New Partner/Successor Generation a reasonable amount to raise a family without having to struggle or be on government assistance

Balance Sheet

- Farm Assets (May also include Personal)
 - Current
 - Cash Accts & Accts Receivables
 - Pre-Pays, Supplies & Growing Crops
 - Crop/Feed/Market Livestock Inventory
 - Other Current Assets
 - Intermediate
 - Breeding Livestock
 - Farm Machinery & Equipment
 - Other Int. Assets
 - Long Term
 - Farm Land
 - Other Long-Term Assets

Balance Sheets

- Liabilities
 - Current Liabilities
 - Current Loans (those that come due and all payments to be made within the current year)
 - Accounts Payable and other Accrued Expenses
 - Intermediate (Month 13 thru 7-10 years)
 - Loans on items such as equipment
 - Long Term
 - Loans on such items as land
- Net Worth
 - $\text{Assets (-) Liabilities} = \text{Net worth (Owners Equity)}$

Accrual Adjusted Income State

- Developed by placing a years accounting between two balance sheets
 - This relates how we get from “A” to “B”
 - Adjusts for differences in:
 - Accts Receivable/Payable
 - Interest Expense
 - Inventory Differences
 - Need to adjust for differences in market values so they are even on both sides (Balance sheets)
 - Will develop multiple ratios that help determine the strength of the business. Need multiple years to determine trends

Long-Range Business Projections

- Budgets must be developed
- Side by Side Comparison of
 - Where are we now?
 - Where can we go?/What if scenarios
 - Multiple Scenarios (options) can be developed

Month-to-month Cash Flow

- Once a likely scenario is developed a month-to-month cash flow projection can be developed to show where possible cash flow problems may exist within an expected annual cycle.

Historic Tax Documents

- Why can't we just look at our old tax documents? Wouldn't that be easier?
 - What they do:
 - They tell us what you paid in taxes!
 - What cash came in to the checkbook for the year
 - What cash left the checkbook for the year
 - What they don't do:
 - Tell us how strong the business is
 - The business' solvency or liquidity
 - Even if a farm is profitable, can it meet cash flow demands to repay all liabilities that are required?
 - Change in asset value
 - Change in inventory

Review of Financials

- Do the financials seem realistic?
- Are the scenarios run reasonable and attainable?
- Can the farm/business support an additional family (or more) and meet the financial needs & expectations of all involved (Owner and Successor)?

Decisions, Decisions, Decisions

- If the Farm cannot take on an additional family then what?
 - Owner Generation can sell at market value if it will provide what they need to survive for retirement when they are ready
- If the farm can take on an additional family
 - Can it handle all interested parties or less? How do we choose which?
- What does Mom & Dad really want to do?
 - Vision, Goals, Objectives

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