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
  - Assets (−) Liabilities = 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 the 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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