



FBA CASE FARM STUDY

In-Family Transfer Case Farm # 1 50 Cows

John Jones, age 43, together with his wife Jill, and family, own and operate Happy Hills Farm. The Jones' family consists of four children, three of which live at home.

Pete Jones, the oldest child, is 20 years old, and is married with one child on the way. His wife Peggy works off of the farm and has been able to secure excellent family health insurance through her employer. She plans to continue her non-farm employment. They own a home in a small nearby town in which they have \$10,000 equity and have a modest savings account of \$2,000.

Pete has done some relief milking for his parents the last two years while working at a non-farm job for wages. Pete and John have agreed to farm together with Pete eventually "buying into" the farm.

The farm is a typical dairy operation milking 50 cows in a stanchion barn. The farm includes 120 owned acres of tillable land and an additional 30 acres of rented cropland.

What arrangement should the family make now?

Case Farm # 1

A summary of John's balance sheet (before the new arrangement) is as follows:

| Assets | Value | Tax Basis | Liabilities |
|--|-----------|-----------|-------------|
| Feed | \$25,000 | \$0 | \$0 |
| Cattle | \$83,000 | \$0 | \$0 |
| Machinery | \$75,000 | \$45,000 | \$0 |
| Buildings | \$80,000 | \$40,000 | \$50,000 |
| Land | \$120,000 | \$20,000 | \$100,000 |
| Total Assets | | | \$0 |
| Total Liabilities | | | \$150,000 |
| Total before tax cash for family living from operations (includes amount available to pay Pete) | | | \$26,345 |



Modified Farm Earnings Example
 FBA Case Farm #1
 50 Cows

| | John age 43 | Pete age 20 |
|---|-------------|-------------|
| Operating Income: | \$135,000 | \$0 |
| Expenses: | | |
| Purchased feed | \$21,580 | |
| Seeds, plants, chem. | \$6,060 | |
| Fertilizer | \$5,300 | |
| Other crop exp. | \$5,065 | |
| Breeding | \$2,240 | |
| Vet & medicine | \$4,070 | |
| Other livestock | \$7,140 | |
| Gas, fuel (farm) | \$3,000 | |
| Utilities (farm) | \$2,500 | |
| Trucking | \$1,750 | |
| Misc. | \$3,000 | |
| Total Cash Operating | \$61,705 | |
| Expenses w/o Interest: | | |
| Returns Over Cash | \$73,295 | |
| Operating Costs: | | |
| Selected Fixed Costs: | | |
| Bldg. & fence repair | \$3,000 | |
| Property tax | \$5,100 | |
| Insurance | \$2,500 | |
| Hired labor | | |
| Machinery repair | \$6,900 | |
| Rented cropland | \$2,250 | |
| Rent of family farm | | |
| Selected Fixed Costs: | \$19,750 | |
| Interest payments (est) | \$12,300 | |
| Principal payments (est) | \$14,900 | |
| Cash for family Living from operation | \$26,345 | |
| Interest income | | |
| Principal received | | |
| Rent received | | |
| Farm wages received | | |
| Total cash for family living before taxes | \$26,345 | \$0 |



Modified Farm Earnings Excise Worksheet
 FBA Case Farm #1
 50 Cows

| | Party 1 | Party 2 |
|---|---------|---------|
| Operating Income: | | |
| Expenses: | | |
| Purchased feed | | |
| Seeds, plants, chem. | | |
| Fertilizer | | |
| Other crop exp. | | |
| Breeding | | |
| Vet & medicine | | |
| Other livestock | | |
| Gas, fuel (farm) | | |
| Utilities (farm) | | |
| Trucking | | |
| Misc. | | |
| Total Cash Operating | | |
| Expenses w/o Interest: | | |
| Returns Over Cash | | |
| Operating Costs: | | |
| Selected Fixed Costs: | | |
| Bldg. & fence repair | | |
| Property tax | | |
| Insurance | | |
| Hired labor | | |
| Machinery repair | | |
| Rented cropland | | |
| Rent of family farm | | |
| Selected Fixed Costs: | | |
| Interest payments (est) | | |
| Principal payments (est) | | |
| Cash for family Living from operation | | |
| Interest income | | |
| Principal received | | |
| Rent received | | |
| Farm wages received | | |
| Total cash for family living before taxes | | |

In-Family Transfer Case Farm # 2
100 cows

John Jones, age 45, together with his wife Jill, and family own and operate Happy Hills Farm. The Jones' family consists of four children, three of which are married and live away from home. The two daughters say they have no interest in the farm. The younger son (Bob) is 17 years old and helps on the farm on weekends and evenings.

Pete Jones, the oldest child is 22 years old, is married, and has a son, age 1 with another child on the way. His wife Peggy works off of the farm and has been able to secure excellent family health insurance through her employer. She plans to continue her non-farm employment. They own a home in a small nearby town in which they have \$20,000 equity.

Pete worked at a non-farm job for wages for the two years after high school and has worked on the farm for wages for the past two years. Pete and Peggy now want to acquire some ownership interest in farm assets.

The farm is typical for a dairy operation milking 100 cows in a flat barn parlor and housed in freestalls. The farm includes 120 owned acres of tillable land and an additional

180 acres of rented cropland. What arrangement should the family make now?

Case Farm # 2

A summary of John's balance sheet (before the new arrangement) is as follows:

| Assets | Value | Tax Basis | Liabilities |
|---|------------------|-----------|-------------------------|
| Feed | \$50,000 | \$0 | \$0 |
| Cattle | \$166,000 | \$83,000 | \$83,000 |
| Machinery | \$120,000 | \$110,000 | \$0 |
| Buildings | \$150,000 | \$90,000 | \$100,000 |
| Land | \$120,000 | \$20,000 | \$90,000 |
| Total Assets | \$631,000 | | |
| Total Liabilities | | | <u>\$273,000</u> |
| Total before tax cash for family living from operations (includes \$20,000 cash value of Pete's compensation) | | | \$47,563 |

Modified Farm Earnings Example
 FBA Case Farm #2
 100 Cattle

| | John age 45 | Pete age 22 |
|---|-------------|-------------|
| Operating Income: | \$270,000 | \$0 |
| Expenses: | | |
| Purchased feed | \$43,160 | \$0 |
| Seeds, plants, chem. | \$12,120 | \$0 |
| Fertilizer | \$10,600 | \$0 |
| Other crop exp. | \$10,130 | \$0 |
| Breeding | \$4,480 | \$0 |
| Vet & medicine | \$8,140 | \$0 |
| Other livestock | \$14,280 | \$0 |
| Gas, fuel (farm) | \$6,000 | \$0 |
| Utilities (farm) | \$5,000 | \$0 |
| Trucking | \$3,500 | \$0 |
| Misc. | \$6,000 | \$0 |
| Total Cash Operating | \$123,410 | |
| Expenses w/o Interest: | | |
| Returns Over Cash | \$146,590 | \$0 |
| Operating Costs: | | |
| Selected Fixed Costs: | | |
| Bldg. & fence repair | \$5,000 | \$0 |
| Property tax | \$7,500 | \$0 |
| Insurance | \$6,000 | \$0 |
| Hired labor | \$20,000 | \$0 |
| Machinery repair | \$16,100 | \$0 |
| Rented cropland | \$13,500 | \$0 |
| Rent of family farm | \$0 | \$0 |
| Selected Fixed Costs: | \$68,100 | \$0 |
| Interest payments (est) | \$24,570 | \$0 |
| Principal payments (est) | \$26,357 | \$0 |
| Cash for family Living from operation | \$27,563 | \$0 |
| Interest income | | |
| Principal received | | |
| Rent received | | |
| Farm wages received | | \$20,000 |
| Total cash for family living before taxes | \$27,563 | \$20,000 |



Modified Farm Earnings Exercises Worksheet
 FBA Case Farm #2
 100 Cattle

| | Party 1 | Party 2 |
|---|---------|---------|
| Operating Income: | | |
| Expenses: | | |
| Purchased feed | | |
| Seeds, plants, chem. | | |
| Fertilizer | | |
| Other crop exp. | | |
| Breeding | | |
| Vet & medicine | | |
| Other livestock | | |
| Gas, fuel (farm) | | |
| Utilities (farm) | | |
| Trucking | | |
| Misc. | | |
| Total Cash Operating | | |
| Expenses w/o Interest: | | |
| Returns Over Cash | | |
| Operating Costs: | | |
| Selected Fixed Costs: | | |
| Bldg. & fence repair | | |
| Property tax | | |
| Insurance | | |
| Hired labor | | |
| Machinery repair | | |
| Rented cropland | | |
| Rent of family farm | | |
| Selected Fixed Costs: | | |
| Interest payments (est) | | |
| Principal payments (est) | | |
| Cash for family Living from operation | | |
| Interest income | | |
| Principal received | | |
| Rent received | | |
| Farm wages received | | |
| Total cash for family living before taxes | | |

**In-Family Transfer Case Farm # 3
200 Cows**

John Jones, age 50, together with his wife Jill, own and operate Happy Hills Farm.

The Jones' family consists of four children. Three of the children are married and live away from home. The two daughters say they have no interest in the farm. John and Jill plan to farm until retirement age. They also want to maintain an opportunity for their sons to farm with them.

Pete Jones, the oldest child is 27 years old. He is married and has two sons, ages 4 and 6. His wife Peggy works off of the farm and has been able to secure excellent family health insurance through her employer. She plans to continue her non-farm employment. They own a home in a small nearby town in which they have \$30,000 equity.

Pete worked on the farm for wages for two years, followed by a milk share lease with his parents for the last five years. Part of his compensation during this arrangement was in the form of heifer calves and he now owns 50 of the cows on the farm. During the last year he received one fourth of the income from the farm. Pete is eager to acquire more equity in the farm business.

The younger son (Bob) is 20 years old and although he has a full time job, he helps on the farm on some weekends and evenings in exchange for room and board. He is planning to get married soon. His fiancé (Barbara) has been working as a hired milker for John and Pete for nearly two years. She plans to continue milking after marriage because she enjoys working with cattle. Bob and Barbara will use up their meager savings getting married and establishing a home. Bob would like to join the farming operation full time.

The farm is typical for a 200 cow dairy operation with free stalls, bunker silos, and a two year old parlor that is large enough to handle more than 200 cows, depending on how many hours a day it is used. The farm includes 120 owned acres of

tillable land and an additional 480 acres of rented cropland. What arrangement should the family make now?

Case Farm # 3

A summary of John's balance sheet before the new arrangement is as follows:

| Assets | Value | Tax Basis | Liabilities |
|---|--------------------|-----------|------------------|
| Feed | \$175,000 | \$0 | \$0 |
| Cattle | \$249,500 | \$100,000 | \$100,000 |
| Machinery | \$200,000 | \$150,000 | \$80,000 |
| Buildings | \$300,000 | \$150,000 | \$250,000 |
| Land | \$120,000 | \$20,000 | \$40,000 |
| Total Assets | \$1,044,000 | | |
| Total Liabilities | | | \$470,000 |
| Total before tax cash for family living from operations | | | \$56,621 |
| Wages paid | | | \$20,000 |

**Case Farm # 3
200 Cows**

A summary of Pete's balance sheet (before the new arrangement) is as follows:

| Assets | Value | Tax Basis | Liabilities |
|---|-----------|-----------|-------------|
| Feed | \$25,000 | \$0 | \$0 |
| Cattle | \$83,000 | \$0 | \$0 |
| Machinery | \$0 | \$0 | \$0 |
| Buildings | \$0 | \$0 | \$0 |
| Land | \$0 | \$0 | \$0 |
| Total Assets | \$108,000 | | |
| Total Liabilities | | \$0 | |
| Total before tax cash for family living from operations | | | \$21,045 |
| Wages paid | | | \$20,000 |

**Modified Farm Earnings Example
FBA Case Farm #3
200 Cows**

| | John age 50 | Pete age 27 | Bob age 20 |
|---|-------------|-------------|------------|
| Operating Income: | \$405,000 | \$135,000 | |
| Expenses: | | | |
| Purchased feed | \$64,740 | \$21,580 | |
| Seeds, plants, □hem.. | \$18,180 | \$6,060 | |
| Fertilizer | \$15,900 | \$5,300 | |
| Other crop exp. | \$15,195 | \$5,065 | |
| Breeding | \$6,720 | \$2,240 | |
| Vet & medicine | \$12,210 | \$4,070 | |
| Other livestock | \$21,420 | \$7,140 | |
| Gas, fuel (farm) | \$9,000 | \$3,000 | |
| Utilities (farm) | \$7,500 | \$2,500 | |
| Trucking | \$5,250 | \$1,750 | |
| Misc. | \$9,000 | \$3,000 | |
| Total Cash Operating | \$185,115 | \$61,705 | |
| Expenses w/o Interest: | | | |
| Returns Over Cash | \$219,885 | \$73,295 | |
| Operating Costs: | | | |
| Selected Fixed Costs: | | | |
| Bldg. & fence repair | \$3,750 | \$3,750 | |
| Property tax | \$10,000 | | |
| Insurance | \$4,500 | \$500 | |
| Hired labor | \$20,000 | \$20,000 | |
| Machinery repair | \$10,000 | \$10,000 | |
| Rented cropland | \$18,000 | \$18,000 | |
| Rent of family farm | | \$0 | |
| Selected Fixed Costs: | \$66,250 | \$52,250 | |
| Interest payments (est) | \$42,300 | | |
| Principal payments (est) | \$54,714 | | |
| Cash for family Living from operation | \$56,621 | \$21,045 | |
| Interest income | | | |
| Principal received | | | |
| Rent received | | | |
| Farm wages received | | | |
| Total cash for family living before taxes | \$56,621 | \$21,045 | |



Modified Farm Earnings Exercise Worksheet
FBA case Farm #3
200 Cows

| | Party #1 | Party #2 | Party #3 |
|---------------------------------------|----------|----------|----------|
| Operating Income: | | | |
| Expenses: | | | |
| Purchased feed | | | |
| Seeds, plants, chem. | | | |
| Fertilizer | | | |
| Other crop exp. | | | |
| Breeding | | | |
| Vet & medicine | | | |
| Other livestock | | | |
| Gas, fuel (farm) | | | |
| Utilities (farm) | | | |
| Trucking | | | |
| Misc. | | | |
| Total Cash Operating | | | |
| Expenses w/o Interest: | | | |
| Returns Over Cash | | | |
| Operating Costs: | | | |
| Selected Fixed Costs: | | | |
| Bldg. & fence repair | | | |
| Property tax | | | |
| Insurance | | | |
| Hired labor | | | |
| Machinery repair | | | |
| Rented cropland | | | |
| Rent of family farm | | | |
| Selected Fixed Costs: | | | |
| Interest payments (est) | | | |
| Principal payments (est) | | | |
| Cash for family Living from operation | | | |
| Interest income | | | |
| Principal received | | | |
| Rent received | | | |
| Farm wages received | | | |



Net Worth Statement –End of Year

| ASSETS | Historic | Current | LIABILITIES | Historic | Current |
|--|------------|--------------|--|------------|--------------|
| | Cost Basis | Market Value | | Cost Basis | Market Value |
| Current | | | Current | | |
| 1. Cash on hand, checking account, savings | | | 22. Principal payments due in 12 months | | |
| 2. Farm notes and accounts receivable | | | a. to primary lender | | |
| 3. Livestock held for sale | | | b. to others | | |
| 4. Feed and grain held for sale and feed: value in growing crops | | | c. on real estate mortgages | | |
| 5. Farm supplies and prepaid expenses, etc. | | | 23. Farm accounts payable in 12 months | | |
| 6. Other current farm assets | | | 24. Other current farm liabilities | | |
| 7. Farm Current Assets | | | 25. Farm current liabilities | | |
| 8. TOTAL CURRENTS ASSETS | | | 26. TOTAL CURRENT LIABILITIES | | |
| Intermediate | | | Intermediate | | |
| 9. Machinery, equipment, and vehicles | | | 27. Deferred principal owed | | |
| 10. Breeding and dairy livestock | | | a. To primary lender | | |
| 11. Other intermediate farm assets | | | b. To others | | |
| 12. Farm intermediate assets | | | c. Deferred accounts payable | | |
| 13. Non-farm intermediate assets | | | 28. Farm intermediate liabilities | | |
| 14. TOTAL INTERMEDIATE ASSETS | | | 29. TOTAL INTERMEDIATE LIABILITIES | | |
| 15. TOTAL CURRENT AND INTERMEDIATE ASSETS | | | 30. TOTAL CURRENT AND INTERMEDIATE LIABILITIES | | |
| Long-Term | | | Long-Term | | |
| 16. Farmland and non-depreciable improvements | | | 31. Deferred principal owed | | |
| 17. Farm building and improvements | | | a. On-farm real estate | | |
| 18. Other long-term farm assets | | | b. Other long-term liabilities | | |
| 19. Farm long-term assets | | | 32. Farm long-term liabilities | | |
| 20. TOTAL LONG-TERM ASSETS | | | 33. TOTAL LONG-TERM LIABILITIES | | |
| 21. TOTAL FARM ASSETS | | | 34. TOTAL FARM LIABILITIES | | |
| | (a) Farm | (b) Total | | | |
| NET WORTH | | | | | |
| 35. Ending assets (farm=line 21) | | | | | |
| 36. Ending liabilities (farm + line 34) | | | | | |
| 37. End net worth (this year) (35-36) | | | | | |
| 38. Begin net worth | | | | | |
| 39. Change in net worth this year (38-39) | | | | | |
| 40. Other Notations | | | | | |



CASH FLOW PLAN AND RECORD

| Item/Month | January | | February | | March | | April | | May | | June | |
|--|-----------|--------|-----------|--------|-----------|--------|-----------|--------|-----------|--------|-----------|--------|
| | Projected | Actual | Projected | Actual | Projected | Actual | Projected | Actual | Projected | Actual | Projected | Actual |
| 1 Begin Checkbook Balance | | | | | | | | | | | | |
| 2 Sale of Capital Items | | | | | | | | | | | | |
| 3 Sale of Held for Sale Items (which were purchased for resale) | | | | | | | | | | | | |
| 4 Sale of Raised Livestock and Poultry | | | | | | | | | | | | |
| 5 Sale of Crops (specify) | | | | | | | | | | | | |
| 6 Sale of Milk | | | | | | | | | | | | |
| 7 Other Sales (specify) | | | | | | | | | | | | |
| 8 Other Sales (specify) | | | | | | | | | | | | |
| 9 Other Sales (specify) | | | | | | | | | | | | |
| 10 Other Farm Sales | | | | | | | | | | | | |
| 11 Non Farm Income | | | | | | | | | | | | |
| 12 TOTAL CASH GENERATED (sum of line 1 thru 11) | | | | | | | | | | | | |
| 13 Labor Expenses | | | | | | | | | | | | |
| 14 Repairs-Mach. Bldg. Fence | | | | | | | | | | | | |
| 15 Rent Paid | | | | | | | | | | | | |
| 16 Feed Purchases | | | | | | | | | | | | |
| 17 Seeds and Plants Purchased | | | | | | | | | | | | |
| 18 Fertilizer ad Lime | | | | | | | | | | | | |
| 19 Other Crop Expense | | | | | | | | | | | | |
| 20 Machine Hire | | | | | | | | | | | | |
| 21 Breeding Fee, Vet and Medicine | | | | | | | | | | | | |
| 22 Other Livestock Expense | | | | | | | | | | | | |
| 23 Gas, Fuel, Oil Farm Share | | | | | | | | | | | | |
| 24 Storage and Warehousing | | | | | | | | | | | | |
| 25 Taxes-Other than Income Tax | | | | | | | | | | | | |
| 26 Insurance- Farm Share | | | | | | | | | | | | |
| 27 Utilities - Farm Share | | | | | | | | | | | | |
| 28 Freight and Trucking | | | | | | | | | | | | |
| 29 Auto Expense-Farm Share | | | | | | | | | | | | |
| 30 Resale Items Purchased | | | | | | | | | | | | |
| 31 Miscellaneous | | | | | | | | | | | | |
| 32 (specify) | | | | | | | | | | | | |
| 33 (specify) | | | | | | | | | | | | |
| 34 Family Living | | | | | | | | | | | | |
| 35 Income Tax and Social Security | | | | | | | | | | | | |
| 36 Non Farm Capital Purchases | | | | | | | | | | | | |
| 37 End Checkbook Balance (Desired for Projected) (Actual for Actual) | | | | | | | | | | | | |
| 38 Total Operation and Living Exp. (sum Line 13 thru 37) | | | | | | | | | | | | |
| 39 Sub Total: Surplus or Deficit (line 12 minus Line 38) | | | | | | | | | | | | |



Case Farm Study

| Item/Month | July | | August | | September | | October | | November | | December | |
|--|-----------|--------|-----------|--------|-----------|--------|-----------|--------|-----------|--------|-----------|--------|
| | Projected | Actual | Projected | Actual | Projected | Actual | Projected | Actual | Projected | Actual | Projected | Actual |
| 1 Begin Checkbook Balance | | | | | | | | | | | | |
| 2 Sale of Capital Items | | | | | | | | | | | | |
| 3 Sale of Held for Sale Items (which were purchased for resale) | | | | | | | | | | | | |
| 4 Sale of Raised Livestock and Poultry | | | | | | | | | | | | |
| 5 Sale of Crops (specify) | | | | | | | | | | | | |
| 6 Sale of Milk | | | | | | | | | | | | |
| 7 Other Sales (specify) | | | | | | | | | | | | |
| 8 Other Sales (specify) | | | | | | | | | | | | |
| 9 Other Sales (specify) | | | | | | | | | | | | |
| 10 Other Farm Sales | | | | | | | | | | | | |
| 11 Non Farm Income | | | | | | | | | | | | |
| 12 TOTAL CASH GENERATED (sum of line 1 thru 11) | | | | | | | | | | | | |
| 13 Labor Expenses | | | | | | | | | | | | |
| 14 Repairs-Mach. Bldg. Fence | | | | | | | | | | | | |
| 15 Rent Paid | | | | | | | | | | | | |
| 16 Feed Purchases | | | | | | | | | | | | |
| 17 Seeds and Plants Purchased | | | | | | | | | | | | |
| 18 Fertilizer ad Lime | | | | | | | | | | | | |
| 19 Other Crop Expense | | | | | | | | | | | | |
| 20 Machine Hire | | | | | | | | | | | | |
| 21 Breeding Fee, Vet and Medicine | | | | | | | | | | | | |
| 22 Other Livestock Expense | | | | | | | | | | | | |
| 23 Gas, Fuel, Oil Farm Share | | | | | | | | | | | | |
| 24 Storage and Warehousing | | | | | | | | | | | | |
| 25 Taxes-Other than Income Tax | | | | | | | | | | | | |
| 26 Insurance- Farm Share | | | | | | | | | | | | |
| 27 Utilities - Farm Share | | | | | | | | | | | | |
| 28 Freight and Trucking | | | | | | | | | | | | |
| 29 Auto Expense-Farm Share | | | | | | | | | | | | |
| 30 Resale Items Purchased | | | | | | | | | | | | |
| 31 Miscellaneous | | | | | | | | | | | | |
| 32 (specify) | | | | | | | | | | | | |
| 33 (specify) | | | | | | | | | | | | |
| 34 Family Living | | | | | | | | | | | | |
| 35 Income Tax and Social Security | | | | | | | | | | | | |
| 36 Non Farm Capital Purchases | | | | | | | | | | | | |
| 37 End Checkbook Balance (Desired for Projected) (Actual for Actual) | | | | | | | | | | | | |
| 38 Total Operation and Living Exp. (sum Line 13 thru 37) | | | | | | | | | | | | |
| 39 Sub Total: Surplus or Deficit (line 12 minus Line 38) | | | | | | | | | | | | |