

Cultivating Your Farm's Future



A workbook for

FARM SUCCESSION

PLANNING IN PENNSYLVANIA



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INTRODUCTION

Cultivating Your Farm's Future has been developed by University of Wisconsin–Madison Division of Extension as a companion workbook for participants in Extension's various programs for farm succession and transition planning. This workbook may also be useful for service professionals as they facilitate conversations around farm succession planning with their clients. The workbook provides worksheets and checklists to help farm business members and families through a three-step process:



SECTION 1

Where are you now?

This section asks you to “take inventory” of aspects of your farm and family. This includes the history of your farm, family, the current farm business and management, ownership of assets, number of employees, and how income and expenses are currently distributed.



SECTION 2

Where do you want to be?

This section provides worksheets and activities to help farm business members develop their intentions for the succession process. This is the time for members to consider the future: What do you want to do? Will the owner generation be fully retired? Or, will there be a significant period of time that the two generations work as full partners? Whatever the timeline, your ideas and intentions for the future are easier to attain if they are written down and discussed by all farm business members.

Gathering this information, writing it down, and organizing it will help the succession process in two ways:

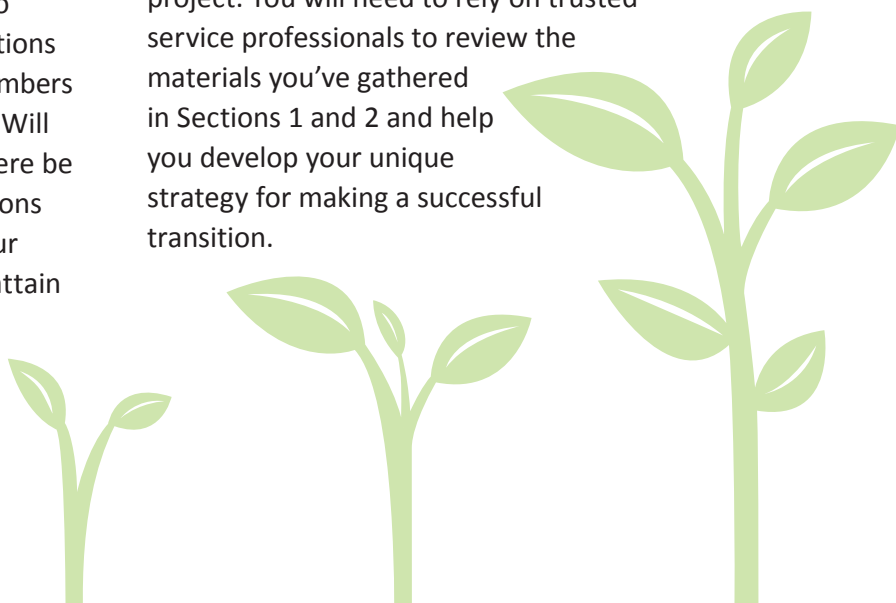
1. It provides farm business members an opportunity to discuss the current state of the farm. Sometimes this is the first opportunity for the successor generation to see the financials and learn the full details of the farm's operations.
2. It puts this information at your fingertips when service providers request it. This allows you to be better prepared. Being better prepared can also make your time with paid service professionals more efficient and less expensive.



SECTION 3

How do you get there?

Working through Sections 1 and 2 will help you form ideas and strategies to consider. Section 3 provides you with basic information about common strategies and tools you can use in developing your succession plan, but know that succession planning is not a do-it-yourself project. You will need to rely on trusted service professionals to review the materials you've gathered in Sections 1 and 2 and help you develop your unique strategy for making a successful transition.



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SECTION 1

Action Steps ✓ Checklist for Section 1

What are your next steps? Here is a checklist and action plan to keep you moving forward:

Complete the **Family Tree** and **Family Member Spotlight** worksheets.

Complete the **Farm Profile** to provide a summary of farm history and farm description to service professionals with whom you are working.

Complete the **Factors Affecting the Farm Business Transition** worksheet as individuals and then discuss your answers and identify issues that should be addressed as a group.

Organize **Financial Information** (from your own files, your own financial software, your farm financial advisor, your lender, your tax specialist, or a combination of these). Three to five years' worth of—

- Farm net worth statements (sometimes called “balance sheets”)
- Income statements. If you don't have income statements, tax information can be used. Work with your facilitator to gather the appropriate tax documents for your business.

Complete the **Personal Net Worth Calculation** worksheet.

Have each household complete the **Monthly and Annual Spending Plan** worksheets.

Have each individual complete the **Farm Finances and Decision-Making** worksheet. Discuss the results to learn what everyone knows about the finances.

Have each individual complete the **Transfer of Management** worksheet. Discuss whether individuals' answers seem to agree or if further discussion is needed about the progression of management transitioning.

Organize your **Advisors' Contact Information and Important Documents** including estate planning documents you currently have.



This table can help you develop your action plan to accomplish the checklist tasks:

What (Action)	Who is Responsible	Completion Date	Cost

FAMILY TREE

Fill in the **Family Tree** with your family members. Be sure to include their age and relationship to farm owners.

Your Family Tree

Name _____
Age _____
Relationship _____

Name _____
Age _____
Relationship _____

Name _____
Age _____
Relationship _____

Name _____
Age _____
Relationship _____

Name _____
Age _____
Relationship _____

Name _____
Age _____
Relationship _____

Name _____
Age _____
Relationship _____

Name _____
Age _____
Relationship _____

Farm Owners:

Name _____ Age _____ Relationship _____

Name _____ Age _____ Relationship _____

Name _____ Age _____ Relationship _____

Name _____ Age _____ Relationship _____

FAMILY SPOTLIGHT

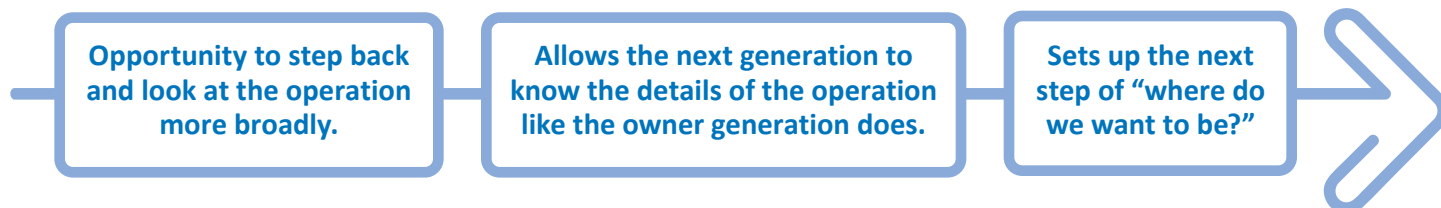
Family Member Spotlight Worksheet

Fill in the table below for all family members. Be sure to identify the individual, their role on the farm (include indirect roles), their employment status, the level and type of education, what kind of income they receive, etc.

Name	Farm Role	Employment	Education	Current Compensation from the Farm	Spouse	Number of Children
<i>e.g., Sally</i>	<i>e.g., Parlor manager</i>	<i>e.g., Part-time secretary</i>	<i>e.g., BS in Animal Science</i>	<i>e.g., \$\$ provided by farm, health care provided by off-farm job</i>	<i>e.g., Yes</i>	<i>e.g., 3</i>

FARM PROFILE

Developing a complete profile for **Where Are You Now?** helps the farm family/partners in several ways:



It also provides a written document of the history and current situation for service providers to review so they are prepared to meet with you.

YOUR FARM OPERATION'S HISTORY:

When and how did you get ownership? When and how was it purchased? How are assets owned? If you have added land or buildings, what type and when? How long has the farm been in the family? Who lives on the farm? Who lives near the farm or on other farm properties? Is there a business entity that owns some of the assets? Does a trust own some of the assets? Are there assets used in the business owned by others?

"The more you know about the past, the better prepared you are for the future."

– Theodore Roosevelt

DESCRIPTION OF CROPPING ENTERPRISECurrent acres ***owned***:

Tillable acres _____

Pasture acres _____

Wooded acres _____

Current acres ***rented*** for the operation:

Tillable acres _____ (average rent/acre) \$ _____

Pasture acres _____ (average rent/acre) \$ _____

Types of crops and approximate acres for each crop:

Average production for cropping enterprise (bushels/acre or tons/acre):

DESCRIPTION OF THE LIVESTOCK ENTERPRISE

Type of livestock enterprise(s), number of animals, production/quality information:

Do you purchase feed? Do you usually only purchase protein and supplements?
Or do you purchase additional corn and/or forages?

LABOR

Do you have family members working on the farm? Are they full or part time?

What are their responsibilities and compensation? How long have they worked for you?

Do you have non-family employees? Are they full or part time?

What are their responsibilities and compensation? How long have they worked for you?

FACTORS AFFECTING THE FARM BUSINESS TRANSITION

As farm owners/partners consider farm business succession, it is important to gather details on assets, business structure, and current operations to have a full understanding of where the business currently stands. It is equally important to consider interpersonal dynamics around the transition process. Not every farm/family experiences the same tensions. They may also experience tensions at different times than others.

Uncovering the potential tensions and addressing them early will help a farm business be more resilient when faced with change.

The following worksheet will help identify issues that may need additional discussion. Individuals should complete the worksheet separately and then review it together to identify the most difficult issues to address.

Discussion Issues Worksheet					
Discussion Topics	Discussed Well			Needs Discussion	
	1	2	3	4	5
Do all family members desire the farm business to continue?					
Can the farm business reach its financial goals?					
Does everyone agree on a vision for the farm business (enterprises, size, etc.)?					
Is the exiting/owner generation ready to give up some decisions/control?					
Can everyone work together?					
How are time off/vacation and acceptable leave defined?					
Can you communicate as business partners rather than as parent/child or employer/employee?					
Is the owner generation willing and able to mentor the successor generation?					
When will the farm transfer ownership?					
Have you discussed performance expectations and performance milestones?					
How will assets or inheritance be distributed? Will it be equal or in some other way fair?					
Are there any family jealousies?					
Are there anger management issues?					
Are there family 'secrets' that, if not addressed, will affect the transition (e.g., substance abuse, mental illness, physical or emotional abuse, personal financial issues)?					
Other issues?					

What did your family/farm partners identify as topics that need more discussion? Write these topics or issues in the box below and explore topics with the highest averaged numbers first. This should be a standing agenda item on family or farm business meeting agendas to

make it a part of the planning process. While ignoring these hard-to-discuss topics may seem easier, a better strategy for a business that hopes to continue in the future is to address these topics early in the transition process.

Topics That Need More Discussion	Possible Barriers to Discussing This Topic Fully

Ideas for addressing those topics:

References:

Carlock, Randel S., and John L. Ward. *Strategic Planning for the Family Business: Parallel Planning to Unify the Family and Business*. New York: Palgrave Macmillan, 2001.

Houden, Deb, and Wendy Sage-Hayward. "Undiscussables: Dealing with the Elephants in Family Business."

The Family Business Consulting Group. November 7, 2014.

www.thefbcg.com/undiscussables-dealing-with-the-elephants-in-family-business

ORGANIZING YOUR FINANCIAL INFORMATION

One of the most important steps in the succession planning process is conducting a financial analysis. This helps both generations understand the farm's past financial position and performance and helps them each determine their income expectations from the farm business.

The first step is to gather what financial information you currently have, determine if it is appropriate for the financial analysis you want to conduct, and then start

filling in the gaps. Having more than one year's worth of information will provide some context about the state of the farm business and help construct its "story." You'll be able to point out the years of expansion, the years of high income, struggles during the years of drought, or other events that impacted the farm financially. This provides the owner generation the framework to describe how they addressed the challenges and made strides forward through the years.

THE STATEMENTS YOU SHOULD GATHER:

Farm Net Worth Statement (or Balance Sheet):

A balance sheet organizes what farm business assets are owned and what debts or liabilities you have on them. Based on these you can calculate the net worth or equity position at one point in time. Having three to five years' of balance sheets can provide some insight about whether the farm business is building equity. However, the supporting schedules are necessary to determine if the changes in equity were due to management decisions or if asset values appreciated/depreciated.

Farm Net Income Statement:

An income statement organizes the income and expenses of the operation so you can calculate net income earned over a period of time, usually one year. Again, three to five years' worth of these statements can provide trends in income and expenses to evaluate the performance of the farm business over a series of years. If you do not have income statements you may be able to use income tax information. This is not ideal because tax-planning practices may not provide a clear picture of the income and expenses for a production year. However, when tax information from several years is evaluated side-by-side it may provide some relevant information.

Personal Net Worth:

If you have significant assets that you want to keep separate from the farm business, you may want to develop a personal net worth statement. This could include assets such as personal savings and investments, retirement savings, real estate not associated with the farm business, household goods, and so on. If there are liabilities associated with these assets, you should keep those separate from the farm business as well.

You may have these financial statements in your files or through your own financial software program such as QuickBooks or AAIMS. If you work with a financial advisor, lender, accountant, or tax specialist, they may be able to provide these documents as well.

There are financial statement forms on the following page and in the Appendix that can be used if you do not have these documents.

PERSONAL NET WORTH CALCULATION WORKSHEET

An important step in gaining financial control is to calculate your net worth (assets vs. liabilities). The items on this worksheet are ones you want to keep separate from the farm business. A net worth statement is a valuable aid in planning your estate and establishing a record for loan and insurance purposes.

Personal Net Worth Calculation Worksheet

ASSETS (what you own)		LIABILITIES (what you owe)	
Cash		Current Debts	
Cash on hand		Household	
Checking account		Medical	
Savings accounts		Credit cards	
Money market funds		Department store cards	
Cash value of life insurance		Taxes due or back taxes	
Other		Legal	
Real Estate/Property		Other	
Home (if separate from farm)		Mortgages	
Land (not associated with farm)		Home (if separate from farm)	
Other		Land (not associated with farm)	
Investments (market value)		Other	
Certificates of deposit		Loans	
Stocks		Bank/finance company	
Bonds		Bank/finance company	
Mutual funds		Automobile	
Annuities		Recreational vehicle/boat	
IRAs		Education	
401(k), 403(b), 457 plans		Life insurance	
Pension plan		Personal (from family or friends)	
Other		Other	
Personal Property (present value)			
Automobiles			
Recreational vehicle/boat			
Home furnishings			
Appliances and furniture			
Collections/jewelry			
Other			
Total Assets:		Total Liabilities:	

MONTHLY AND ANNUAL SPENDING PLAN (WORKSHEETS)

Download this worksheet as an Excel spreadsheet with corresponding formulas at go.wisc.edu/s7nk62.

Household Expenses Worksheet

This worksheet can be used to attribute expenses to the household and farm. For many farm households there are expenses that are both farm and home. For example, if the home is a part of the farm, the farm mortgage pays for the home. Electric bills and property insurance may not be separated for the house vs. farm buildings. Receipts from some businesses can include both farm supplies and household expenses such as cleaning supplies, food, etc.

During times of transition, separating these expenses can be helpful to understand what it might cost to live in the home without including the farm expenses. The two columns “% Family Living” and “% Farm Cost” can help you separate these costs that are bundled together. You may not put a percent in these columns for every expense, just those that are bundled.

Your accountant may have a formula or percentage for separating the electric bill. If possible, you may consider getting two separate electric meters for the barns and the house. Your insurance agent can help with attributing property insurance costs for the home separate from the farm buildings/property.

As you complete this worksheet, think about which expenses may go up or down as you transition.

Spending Categories	A. Total Monthly Cost	B. % Family Living	C. % Farm Cost	Total Annual Cost (column A x 12)	Total Family Cost (column A x B) x 12
Home mortgage/rent					
Property taxes					
Insurance (home & auto)					
Home repairs/maintenance					
Utilities – electric					
Utilities – LP/gas					
Phone/cell					
Satellite/Internet (or bundle)					
Auto maintenance/fees					
Gas/fuel for auto					
Groceries					
Eating out					
Farm animals (for eating)					
Household supplies					
Clothing					
Health insurance					
Co-pays – e.g., medical, dental, eye, pharmacy					
Child costs – e.g., care, school, clubs, lunches					
Entertainment – e.g., movies, hunting, sports					
Pets					
Gifts/donations					
Adult education					
Professional/service fees					
IRA/retirement savings					
Emergency savings					
Other					
Total Annual Living Expenses:				\$	\$

Debt

Loan/Creditor	A. Monthly Payment	B. % Family Living	C. Monthly Cost – Family (column A x column B)	Monthly Cost – Farm (column A – column C)	Annual Cost – Family (column C x 12)
Auto					
Auto					
Home (if separate from farm)					
Non-farm property					
Student loan					
Student loan					
Credit card					
Credit card					
Credit card					
Credit card					
Home equity line of credit (if used for non-farm expenses)					
Other					
Other					
Other					
Total Family Debt:					

Household Net Income

Source	Monthly Household Income	Annual Household Income
Off-farm income 1		
Off-farm income 2		
Draws from farm account		
Other		
Total Household Net Income:		

Draws from farm account could be on a monthly basis, irregular draws for family expenses, or one draw at the end of the year. Total those draws for the annual amount used for household/family expenses.

FARM FINANCES AND DECISION-MAKING WORKSHEET

Talking about the finances of the farm is one of the most important steps to a successful transition. While families who farm together seem to “talk shop” all the time (just ask the in-laws how family meals go), there is still one topic they tend to avoid at the dinner table: money. This may be a carryover from when the children were younger. Parents tend to not talk about money and finances in front of their children when it can be a cause of tension between the parents, or when money is tight

and they have to decide which bills to pay and not pay. When the adult children are a part of the farm and there is an expectation they will eventually own and manage it, the money discussion has to happen and happen frequently. Parents may think they are sharing financial information with their farming adult children, but the adult children may feel a bit in the dark. It can be helpful to gauge how everyone feels about the communication around the farm’s finances.

Farm Finances and Decision-Making Worksheet

Rate each response 1 to 5:

1 Strongly Disagree

2 Disagree

3 Neutral

4 Agree

5 Strongly Agree

		Family Members' Names				
I Feel That...	My Ratings	Family Members' Ratings				
A. I know and understand the financial position and performance of the farm business.						
B. Financial measures are used to make decisions on our farm.						
C. We talk openly about the farm business's financial ability to support another generation/family.						
D. We all agree on how we make financial decisions for the farm business.						
E. We all agree on the financial goals for the farm business.						

Adapted from work by Bob Cropp, retired UW Extension Agriculture Agent, Pepin County, Wisconsin.

TRANSFER OF MANAGEMENT WORKSHEET

As the owner generation prepares for retirement, the successor generation is gearing up to take over the operation. There will still be a transition period when both generations must work together for the good of the farm. Successors will want, and need, a more active role in making day-to-day decisions. The owner generation,

however, has made a significant investment in keeping the farm successful and may have difficulty letting go of many of the management decisions. The question of who controls management can be a barrier in a farm succession plan. Transfer of management cannot occur if the owner generation retains control of most of the decision-making.

Transfer of Management Worksheet

Select the degree to which you feel the following management responsibilities are being retained by the owner generation or transferred to the successor generation.

- 1 The decision is being made solely by the owner generation.
- 5 The decision is being made solely by the successor generation.
- 2, 3, or 4 The decision is being shared by both the owner and successor generations, and to what degree.
(A "2" indicates it is a shared decision but still mostly the owner generation's decision, a "3" is an equally shared decision, and a "4" means it is a shared decision but mostly the successor generation's decision.)

	Retained -----> Transferred				
	1	2	3	4	5
Production-Related:					
Plan day-to-day work					
Make annual crop and nutrient management plans					
Manage livestock decisions (breeding, vaccinations, nutrition)					
Make machinery maintenance and repair decisions					
Decide the timing of operations					
Decide when to sell crops/livestock (cull for dairy)					
Negotiate sales of crops/livestock					
Finance-Related:					
Decide when to pay bills					
Decide type and make of machinery and equipment					
Negotiate purchase of machinery and equipment					
Keep farm records (financial, production, etc.)					
Human-Resources-Related:					
Decide when to hire more help					
Recruit and select employees					
Decide amount and quality of work					
Supervise employees					
Decide work method/ways jobs are done					
Long-Term/Strategic-Planning-Related:					
Decide and plan capital projects					
Identify sources and negotiate loans and financing					
Decide the mix and type of enterprises in the long run					

Source: Iowa State University Ag Decision Maker: Are You Transferring the Farm?, adapted from E. Errington, University of Plymouth, UK

LIST OF ADVISORS AND IMPORTANT DOCUMENTATION

ADVISORS

Lender

Name _____

Address _____

Phone number _____

Email address _____

Personal financial advisor

Name _____

Address _____

Phone number _____

Email address _____

Tax preparer and/or accountant

Name _____

Address _____

Phone number _____

Email address _____

Insurance agent

Name _____

Address _____

Phone number _____

Email address _____

Insurance agent

Name _____

Address _____

Phone number _____

Email address _____

Crop consultant

Name _____

Address _____

Phone number _____

Email address _____

Attorney

Name _____

Address _____

Phone number _____

Email address _____

Veterinarian

Name _____

Address _____

Phone number _____

Email address _____

Farm financial consultant

Name _____

Address _____

Phone number _____

Email address _____

IMPORTANT DOCUMENTS

Here is a list of documents that you may want to gather as you work on your succession or estate plan. This is not a complete list of necessary documents. There are several forms and worksheets available to organize all of your important papers. Resource links are included at the end of this section.

Official Documents	Location?	Date Last Updated/Reviewed
Power of Attorney for Health Care		
Living Will (Declaration to Physicians – If you have both POA for Health Care and a Living Will, review them with your attorney and/or physician to ensure they do not contradict each other)		
Health Insurance Portability and Accountability Act (HIPAA) release (A list of people who can have information about your health status.)		
Power of Attorney for Finances		
Will(s)		
Trust(s)		
Business entity(ies) paperwork		
Business entity operating agreement(s)		

REAL ESTATE PROPERTY

List real estate owned by your family or by a business structure that you own. Include your home, farmland, and vacation home/cabin retreat. Ownership could be sole owner, tenancy in common, joint tenancy, marital property, owned by a trust, partnership, corporation, or limited liability company.

Property Description/ Parcel ID	How Owned?	Date Obtained and Value at That Time	Estimated Current Market Value	Any Debt Against the Property? If So, How Much?

INSURANCE

There are various types of insurance policies for the farm business and for personal needs. This table lists a few of the most common types. For life insurance policies, you'll want to note who owns it, who the beneficiaries are, and if they are term or whole life policies. You may not have all of these types of insurances.

Insurance Information	Location?	Date Last Updated/Reviewed
Life insurance(s)		
Farm insurance (umbrella, property, liability)		
Home insurance (if separate from farm)		
Health insurance		
Disability insurance		
Long-term care insurance		
Vehicle insurance		
Other		

BANK ACCOUNTS

Have a recent account statement for each, location of related items (checkbooks, passbooks, certificates) and an account login/password for online management.

Account (farm checking, personal checking, savings, loan, etc.)	Institution	Account Number	Transferable on Death? To Whom?	Location of Online Login/Password Information

INVESTMENT ACCOUNTS

List investment accounts such as mutual funds, retirement accounts, or pensions. Indicate which are pensions and which investments are tax-sheltered accounts designated for retirement.

Account (mutual funds, stocks, bonds, IRAs, 401(k), 403(b), military benefits, etc.)	Institution	Account Number	Transferable on Death? To Whom?	Location of Online Login/Password Information

CREDIT CARDS

Have a recent account statement for each account and login/password for online management. You might also want to photocopy the front and back of all your credit cards and keep that in a safe place. This allows you to have quick access to all contact info in case your wallet is lost or stolen.

Credit Card	Last 4 Digits	Expiration Date	Balance

UNPAID TAXES

List any unpaid tax obligations you have. This could include federal and/or state income tax and property tax.

Name of Taxing Authority	Details (include how long delinquent)	Amount Owed (including interest and penalties if known)

MONEY OWED TO YOU

List any money that is owed to you.

Person or Company Who Owes You Money	Contact Information	Amount of Original Debt	Current Debt Owed	Terms of Payment & Documentation

Most other assets and liabilities are documented on your balance sheet and supporting schedules. Balance sheet forms and schedules are included in this workbook if you don't have a current one.

Here are examples of comprehensive documents that can help you collect all of your important information and document locations:

Marrison, David. "Getting Your Farm & Family Affairs in Order." The Ohio State University Extension. Accessed May 28, 2019. agmr.osu.edu/sites/agmr/files/imce/pdfs/publications/OSUExtension-GettingYourAffairsinOrder-writeable.pdf

Hunter, Jennifer. "Estate Planning: Your Records and Personal Information." University of Kentucky College of Agriculture. Accessed May 28, 2019. www2.ca.uky.edu/agcomm/pubs/fcs5/fcs5422/fcs5422.pdf

This resource is not farm-specific but includes tables to record your online social media usernames and passwords:

Everplans: www.everplans.com/articles/checklist-documents-to-organize-and-share

SECTION 2

Action Steps ✓ Checklist for Section 2

What are your next steps? Here is a checklist and action plan to keep you moving forward:

Complete the **Intentions** worksheets (either **Owner** or **Successor**) and discuss the results with any spouse/partner and then with both owners and successors as a group.

Complete the **Core Values Clarification Exercise** and discuss the results with any spouse/partner and then with both owners and successors as a group.

Complete the **What Does Your Future Look Like?** worksheet and discuss the results with any spouse/partner and then with both owners and successors as a group.

Owner generation can complete the **How “Retired” Will You Be?** worksheet and discuss with any spouse/partner.

Complete the **Is Equal Fair?** worksheet and discuss with spouse, partners, and family members as appropriate.

Discuss the transfer of management from owner generation to successor generation. The **Control of Farm Management Decisions** worksheets (**Owner Generation: Maintaining Control of Farm Management Decisions** worksheet, **Successor Generation: Increasing Control of Farm Management Decisions** worksheet, and **Transfer of Management Plan** worksheet) can help with that discussion.

Develop a SWOT analysis of your farm business. SWOT stands for—

Strengths – List all the internal positives about your farm business.

Weaknesses – List all the internal negatives about your farm business.

Opportunities – List all the external positives that can affect your farm business.

Threats – List all the external negatives that could affect your farm business.

Discuss with your farming partners. This will help with issue development in Section 3 of this workbook.

Evaluate the “D” risks. This exercise can also help with issue development in Section 3 of this workbook.

This table can help you develop your action plan to accomplish the checklist tasks:

What (Action)	Who is Responsible	Completion Date	Cost



INTENTIONS FOR THE OWNER GENERATION

Select one choice for each statement.

①
Strongly
Disagree

②

③
Neutral

④

⑤
Strongly
Agree

I want the farm to remain in my family's possession.

I want the farm business to continue after I retire and be managed/owned by my family.

I want the farm business to continue after I retire:

A. If the successor(s) are my children

B. If other family take over

C. If non-family take over

I want/need full fair market value for the farm assets.

I want to give financial help or discounts to my successor(s), if they are:

A. My children

B. Other family

C. Non-family

It is important for the farm to continue the same type of enterprise in the future (dairy, grain, etc.).

I am okay with changes to the farm operation:

A. While I am still involved

B. Only after I step away from involvement

I want the division of my assets, including any farm assets, to be equal in dollar value among my children.

I want the division of my assets, including any farm assets, to be fair (not necessarily equal).

CONTINUED ON NEXT PAGE

INTENTIONS FOR THE OWNER GENERATION – CONTINUED

*Select one choice for each statement.*①
Strongly
Disagree

②

③
Neutral

④

⑤
Strongly
Agree

I have enough non-farm retirement savings.

I will be moderately dependent on
the farm assets for retirement.

The farm is my retirement.

I would like to provide some labor to the farm
as long as I am physically able.I would like to be involved in the decision-making
throughout my lifetime.

I would like to be consulted on bigger decisions.

I am done with making decisions about the farm.

I feel my current farm debt is manageable
as I transition the farm.I am concerned my debt will significantly
impact the farm transition.I feel I can be a good mentor to the
next generation for some topics.

INTENTIONS FOR THE SUCCESSOR GENERATION

Select one choice for each statement.

①
Strongly
Disagree

②

③
Neutral

④

⑤
Strongly
Agree

I am willing to make financial sacrifices and invest in or work for farm assets to reach my goal of owning the farm.

I have other financial goals that need to be balanced with financial investments in the farm.

I want my children to be involved in the farm in age-appropriate work and responsibilities.

I want my children to have opportunities to participate in school activities/sports or other non-farm interests.

I am open to expanding the size of the current operation.

I am open to reducing the size of the current operation.

I am open to changing enterprises on the farm.

I am willing to take on added debt to reach my goals.

I am ready to take on more decisions/responsibilities.

I need additional training and skills before I take over certain responsibilities.

I feel the owner generation would be a good mentor for certain topics.

I would like other mentors for some topics.

I feel farm work and my farming goals take priority over time off and vacations.

Taking time away from the farm is important to me.

I want my contributions to the farm recognized when a price is negotiated or inheritance is determined.

CONTINUED ON NEXT PAGE

CORE VALUES CLARIFICATION EXERCISE

STEP 1: CORE VALUES LIST

Select only the 8 value words that are most important to you, then narrow the list to 3 to 5 words. The blank lines at the bottom of each column allow you to add your own value words if you do not find them on this list.

truth
curiosity
efficiency
initiative
environment
communication
power
control
courage
competition
excitement
creativity
happiness
honor
innovation
obedience
financial growth
community support
effectiveness
integrity
peace
loyalty
clarity
financial security
love
intelligence
provide a legacy
persistence
sincerity
fun
relationships
wisdom

flexibility
perspective
commitment
recognition
learning
family harmony
honesty
originality
prestige
prosperity
discipline
respect
fairness
order
spirituality
adventure
cooperation
humor
collaboration
empathy
family
open-mindedness
having adequate resources
autonomy
dependability
trust
beauty
excellence
teamwork
service
challenge
profitability

freedom
friendship
influence
decisiveness
justice
quality
hard work
responsiveness
fulfillment
purposefulness
diversity
strength
self-control
cleverness
success
stewardship
support
equality
harmony
patience
growth
variety
productivity
competence
health
risk-taking
simplicity
independence
comfortable home

STEP 2: PRIORITY, OUTCOME STATEMENTS, AND BEHAVIORS

Please place your 3 to 5 Core Values in priority order and list the outcome statement and behavior indicators for each of them. The behaviors do not need to be in priority order.

It is critical to place your Core Values in priority order in the event you face a decision where two values conflict. For example, say you had **Integrity** as a higher value than **Financial Growth** and you were offered a substantial amount of money as a gift that you know was obtained in an unethical manner. Taking the gift would improve your **Financial Growth** value, but you would decline the gift because your **Integrity** value has higher priority.

EXAMPLES – CORE VALUES:

Core Value

Integrity

Outcome Statement

Do the right thing.

Behaviors:

- *Tell the truth at all times*
- *Be ethical in all I do*
- *Be trustworthy*

Core Value

Relationships

Outcome Statement

Demonstrate the awesome value of others.

Behaviors:

- *Love people*
- *Equip others to succeed*
- *Expand circle of influence*
- *Resolve conflicts*
- *Recognize and reward success*

Core Value

Financial Growth

Outcome Statement

Gradually increase personal net worth

Behaviors:

- *Manage debt*
- *Limit consumer spending*
- *Make well-researched/wise investments*
- *Fully pay credit card balances each month*

YOUR CORE VALUES:

Core Value

Outcome Statement

Behaviors:

Core Value

Outcome Statement

Behaviors:

Core Value

Outcome Statement

Behaviors:

Core Value

Outcome Statement

Behaviors:

Core Value

Outcome Statement

Behaviors:

STEP 3: MAKING SENSE OF THE RESULTS

You may have just identified your personal Core Values for the first time, or this exercise may have been a reaffirmation of values of which you were already aware. Effective ethical leadership is about ensuring your behavior is in line with your stated Core Values. In other words, having the courage to stand up for what you believe.

**Your value words are powerful because they are yours,
regardless of the process you used to define them.**

FOOD FOR THOUGHT

Is there alignment between your Core Values and your actual behavior? If not, where do you believe the gaps are?

Do you need to address any gaps between your Core Values and your actual behavior? If so, how will you go about doing so?

WHAT DOES YOUR FUTURE LOOK LIKE?

Visioning is an important exercise to help you and your farm business reach your potential and its potential.

PERSONAL VISION



**3 YEARS
FROM NOW**

What do you do?

Where do you live?

What are your daily responsibilities?

Where do you get your income to pay your
living expenses?



**5 YEARS
FROM NOW**

What do you do?

Where do you live?

What are your daily responsibilities?

Where do you get your income to pay your
living expenses?

**Remember: The best way to predict the future is to create it.
Creating your future starts with thinking about it.**

FARM BUSINESS VISION



**3 YEARS
FROM NOW**

What does your farm business look like?
(size, managers, enterprises)

How involved are you in the daily management
decisions of the farm business?

How involved are you in the long-term decisions
for the farm business?

How much ownership (%) do you have in the assets
of the farm business?



**5 YEARS
FROM NOW**

What does your farm business look like?
(size, managers, enterprises)

How involved are you in the daily management
decisions of the farm business?

How involved are you in the long-term decisions
for the farm business?

How much ownership (%) do you have in the assets
of the farm business?

HOW “RETIRED” WILL YOU BE?

Your ideas about retirement are likely to evolve over time. What things do you want to do in your retirement? How do your ideas align with those you plan to spend time with? Taking time now to think about your later years can help ensure your retirement matches the lifestyle you envision.

Instructions: Think about how you will spend your time after you retire. On the left, complete the blanks you feel relate to how you will spend time and the important relationships you will have. After filling in these blanks, share the information with those people you identified, and record your reflections.

1. HOW YOU WANT TO SPEND YOUR TIME

Working on-farm

Activities:

Working off-farm

Second career:

Volunteering:

Leisure/personal interest

Recreation:

Hobbies:

Education:

Travel:

Other:

Relationships

Spouse/partner:

Children:

Grandchildren:

Aging parents:

Friends/new friendships:

Business partners:

2. REFLECTIONS FROM DISCUSSION

Relationships: Think about what activities you may want to do alone, and what you may want to do with those you identified in the Relationships section. For example, do you and your spouse or partner have friends in common, and separate friends of your own?

IS EQUAL FAIR? WORKSHEET

List the assets the farm and owner generation have.

Identify if each asset is a:

- (R) Retirement Asset
- (B) Business Asset
- (I) Inheritance Asset
- (Assets can be in multiple categories)

Conversation Starter

How dependent is the owner generation on the business assets for retirement?

List the heirs and farm business successors.

Identify who is on- or off-farm:

- (on) On-Farm Heir
- (off) Off-Farm Heir

Conversation Starter

For the on-farm heirs, when did their contributions start?
(i.e. during childhood, after they turn 18, after they buy-in, etc.)

What are your THREE goals for you and the farm?

Conversation Starter

Which distribution principle will help you reach your goals, your family's goals, and the farm's goals?
(i.e. equality, proportional equity, or needs-based)

CONTROL OF FARM MANAGEMENT DECISIONS WORKSHEETS

Complete these worksheets and then fill out the Transfer of Management Plan worksheet on the following page.

Owner Generation: Maintaining Control of Farm Management Decisions Worksheet

How Important Is It to You...		① Very Important	②	③	④	⑤ Not Important
To be involved in the daily operation of the farm business?	Today					
	3 years from now					
	5 years from now					
To be involved in the production decisions for the farm business?	Today					
	3 years from now					
	5 years from now					
To be involved in the marketing decisions for the farm business?	Today					
	3 years from now					
	5 years from now					
To maintain some financial control over the farm business?	Today					
	3 years from now					
	5 years from now					

Adapted from Transferring Your Farm or Ranch to the Next Generation, Montana State University Extension. msuextension.org/publications/FamilyFinancialManagement/EB0149.pdf

Successor Generation: Increasing Control of Farm Management Decisions Worksheet

How Important Is It to You...		① Very Important	②	③	④	⑤ Not Important
To be involved in the daily operation of the farm business?	Today					
	3 years from now					
	5 years from now					
To be involved in the production decisions for the farm business?	Today					
	3 years from now					
	5 years from now					
To be involved in the marketing decisions for the farm business?	Today					
	3 years from now					
	5 years from now					
	Today					
	3 years from now					
	5 years from now					

Adapted from Transferring Your Farm or Ranch to the Next Generation, Montana State University Extension. msuextension.org/publications/FamilyFinancialManagement/EB0149.pdf

Using the completed worksheets for both generations, discuss each generation's desires to maintain or gain control of different areas of management. Use this Transfer of Management Plan worksheet to develop a timeline for transitioning specific management decisions to the successor generation.

"SWOT" MATRIX AND STRATEGY ANALYSIS WORKSHEET

STEP 1

Using the outer boxes, brainstorm your business's strengths, weaknesses, opportunities and threats (SWOT).

STEP 2

Using the inner boxes, develop strategies or action steps to address opportunities and threats by taking advantage of strengths and minimizing or eliminating the impact of weaknesses.

For further information on SWOT analysis:
<https://farms.extension.wisc.edu/articles/identifying-strategies-to-maximize-potential-and-minimize-risk/>

Internal Analysis

Look at your business performance, assets and management through a self-assessment lens.

Do you have a competitive advantage?

Strengths

Weaknesses

Opportunities

S–O Strategies

W– O Strategies

Threats

S–T Strategies

W– T Strategies

External Analysis

Think about the economic environment, industry trends and changes, input and commodity prices and the competition your business faces.

EVALUATING THE “D” RISKS

Evaluate any potential “Ds”—death, disability, disaster, divorce, disagreement, debt, depression, dysfunction, and denial—and develop Action Steps, starting with the highest priorities.

(This exercise is adapted from University of Wisconsin–Madison Division of Extension AgVentures **Got Risk?** Curriculum.)

Scoring Instructions: Using the tables below, base the scoring of “Ds” on the likelihood (probability) that some risk event will occur and the risk’s impact on the operation.

1. Probability that the undesirable outcome will happen within the next three years:
2. Taking into account the current risk management strategies in place, what is the impact on profitability or farm business and family goals if the undesirable outcome does happen? Evaluate and score the impact as follows:

Probability that the Undesirable Event Will Happen	Score on 5 “Ds” Worksheet
0–10%	0
10–20%	1
20–50%	2
> 50%	3

Description of Expected Impact if the Undesirable Outcome Happens	Score on 5 “Ds” Worksheet
Virtually no impact. Short-term nuisance at worst.	0
Short-term impact with moderate disruption/loss. It will hurt, but the hurt will be short-term.	3
Significant short- and/or long-term impact that, while survivable, results in serious disruption/loss.	6
Severe to catastrophic hardship and/or loss. Continued operation will be difficult.	9

INTERPRETATION OF RISK POSITION

Instructions:

Step 1 For each event, use the tables above to determine scores and then use the table on the following page to add the two scores together for the SUM score.

Step 2 Interpret the importance of the risk (Risk Position) and set priorities using the Step 2 tables.

Step 3 Consider strategies to address risks, using the Step 3 table.

Note: The descriptions below are subjective and used as an indicator only.

SUM = 0–2: No action required

3–4: Not critical, but may want to examine low-cost alternatives to reduce or avoid the risk.

5–6: Need to be serious about addressing the risk. Seek cost-effective means to address the risk.

7–8: Action is required. There is an urgency for action.

9–12: Do not delay. Immediate action required!

Step 1: SCORE THE “Ds” YOUR OPERATION IS FACING

EVENT	Probability that Event Will Happen (0, 1, 2, or 3 Score)	Expected Impact (0, 3, 6, or 9 Score)	SUM (Add the Probability and Expected Impact Scores)
Death			
Disability			
Disaster			
Divorce			
Disagreement			
Debt			
Depression			
Dysfunction			
Denial			

Step 2: SETTING PRIORITIES FOR ADDRESSING THE “Ds”**Which “Ds” scored 9–12 points?** (Immediate action required)

“D”	Score	Priority	Date Completed

Which “Ds” scored 7–8 points? (Urgency for action)

“D”	Score	Priority	Date Completed

Which “Ds” scored 5–6 points? (These needs will be addressed after the “Ds” above are addressed)

“D”	Score	Priority	Date Completed

Do not forget about those “Ds” scoring 3–4 points. While these may not require immediate action, monitor them and address accordingly so they do not move into the more urgent categories.

Step 3: CONSIDERING STRATEGIES TO ADDRESS YOUR RISKS

For each priority “D” event, use the **Evaluation Activity below** to brainstorm possible strategies, evaluate the options, and select a strategy. Record your plan in this table:

What (Action Steps)	Who is Responsible	Completion Date	Cost

EVALUATION ACTIVITY (FOR EACH PRIORITY “D” EVENT)

Describe the issues around this “D” that makes it the top priority:

(Examples: The “D” is a death of a majority owner; list their assets, the important business assets, and how they are owned. If the “D” is debt of the business or a member of the farm, outline the details of the debt(s))

Brainstorm options to address the “D”. Explore at least two options that can resolve the issue.

At this point, do not reject any option. Be nonjudgmental.

Evaluate each option by listing the positive and negative consequences with each option.

Select the option that has the most positive and least negative consequences and best addresses the situation.

In the table above, record the action steps to implementing the selected option.

SECTION 3

Action Steps ✓ Checklist for Section 3

Reflecting on the worksheets completed in Sections 1 and 2 will help develop the plan to move forward. This final section helps put your ideas and plans on paper:



Complete the **How “Retired” Will You Be? – Follow-up** worksheet and discuss the results with any spouse/partner. Then discuss as a group of all owners and successors.

Discuss how you will communicate as business partners and complete the **Planning to Plan** worksheet. Schedule meetings and work on meeting agreements and agendas for both operational and strategic planning meetings.

Using the information from the SWOT analysis and evaluating the “D” risk exercise, complete the **Issues Development** worksheet and discuss with both owners and successors as a group.

When two or more people own and manage a business it is important to complete and follow an operating agreement. The **Operating Agreement** worksheet has a series of questions to help you develop your agreement. It may be helpful to work with an attorney to finalize the agreement after you have some of your ideas on paper.

If you need to find service professionals for your succession plan, use the **Interviewing Professionals for Farm Succession** worksheet as a way to evaluate professionals and select one that works for you.

This table can help you develop your action plan to accomplish the checklist tasks:

What (Action)	Who is Responsible	Completion Date	Cost

HOW “RETIRED” WILL YOU BE? – FOLLOW-UP

Think about the use of your time for your later years. Planning can help ensure your retirement matches the lifestyle you envision.

Instructions: After reflecting on your discussions with the people and relationships important to you (**How “Retired” Will You Be?** in Section 2), review and complete the areas of importance in the “How I’ll spend my time” column. Next, think about how much time you plan to spend on those activities and relationships. This could be time per week or month, certain months of the year, and/or assigning priorities (high, medium, and low).

How I’ll Spend My Time		Priority	Dec–March	April–June	July–August	Sept–Nov
Farm Activities						
Working Off the Farm	Second Career					
	Volunteering					
Leisure/Personal Interest	Recreation					
	Hobbies					
	Education					
	Travel					
	Other					
Relationships	Spouse/Partner					
	Family					
	Friends					
Summary	Total Time Allocated:					
	Total Time Available:					
	Balance:					

PLANNING TO PLAN

For many farms, including the next generation in the management and planning will be a shift in how and when issues are discussed and decisions are made. The owner generation has been making decisions on their own or with a spouse or partner for years, probably decades. These discussions take place informally, as people are working together, driving together, or even just before bed. While these discussions worked with one or two decision makers, they probably will not work as you bring others into the business.

Operational meetings should happen often, be relatively short in duration, and involve those engaged in the day-to-day operation of the farm. Meetings should happen once a week for 30 minutes to an hour to discuss the tasks for the week. Set a time that works for everyone, be consistent in meeting at that time, and, if there isn't a lot to cover, adjourn the meeting early rather than canceling it. Consistency is key.

Strategic planning meetings should involve key stakeholders, including spouses or partners who may not be involved daily but are affected by the big decisions that are made. These will be less frequent but longer meetings. Again, setting a time that works for everyone is important. Provide an agenda beforehand so people know what to expect.

Meeting agreements, sometimes called meeting ground rules, can keep your meetings grounded in the tasks at hand and help you all learn how to interact in new roles as business partners rather than just as family members. Example meeting agreements can be found on the next page.

Start planning your consistent meetings by answering these questions:

OPERATIONAL MEETINGS

1. How often do we want to meet for operational discussions? _____
2. What is the best day and time for these meetings? _____
3. How long should these meetings be? _____
(Hint: If meeting like this is really new, even a 10- or 15-minute meeting that is consistent can help with communication.)
4. Who should be involved at all meetings? _____
5. What are the topics we will cover? (Examples: weekly work flow, tasks that need to be completed, scheduling shifts, time off)

STRATEGIC PLANNING OR SUCCESSION PLANNING MEETINGS

1. How often do we want to meet for strategic discussions? _____
2. What is the best day and time for these meetings? _____
3. How long should these meetings be? _____
4. Who are the key stakeholders who should be included? _____

Example Meeting Agreements	Our Meeting Agreements
<ul style="list-style-type: none"> • 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. 	

A few other meeting tips:

- Rotate meeting leadership.
- Record and share meeting notes, action plan.
- Begin each meeting with everyone sharing something that has recently gone well on the farm.
- Use the meeting time to give compliments for jobs well done.
- Food always helps!

Example Meeting Agenda

Name of the farm:

Location of the meeting:

Date: _____ Time: _____

AGENDA

1. Call to order – (name of person running meeting)
 2. Standing reports (something always on the agenda)
 - a. Herd report
 - b. Crops/fieldwork report
 - c. Financial report
(may or may not be on every operational meeting agenda)
 3. Weekly task discussions
 4. Agenda items carried over from last meeting
 5. Review action items from succession planning meeting and give updates on what was done, and share information learned from those action items
 6. Other items
 7. Next meeting will be led by – (name of person)
 8. Adjourn
- Next meetings:
- Operational or check-in meetings: Every Monday at 6:30 a.m. during breakfast at Mom & Dad's house for 45 minutes
 - Strategic or succession planning meetings: Third Wednesday of every month at the County Extension office between 1 and 3 p.m.

Our Meeting Agenda

Name:

Location of the meeting:

Date: _____ Time: _____

AGENDA

1. Call to order – _____
 2. Standing reports (something always on the agenda)
 - a. _____
 - b. _____
 - c. _____
 - d. _____
 3. Weekly task discussions
 - a. _____
 - b. _____
 - c. _____
 - d. _____
 4. Agenda items carried over from last meeting
 - a. _____
 - b. _____
 - c. _____
 - d. _____
 5. Review action items from succession planning meeting and give updates on what was done, and share information learned from those action items
 - a. _____
 - b. _____
 - c. _____
 6. Other items
 7. Next meeting will be led by _____
 8. Adjourn
- Next meetings:
- Operational or check-in meetings:
Every _____ at _____ for _____ minutes
 - Strategic or succession planning meetings:
Every _____ at _____ from _____ to _____

ISSUES DEVELOPMENT

You may identify several issues your farm business is facing. Describe each issue in its own box below. It may be helpful to review the SWOT analysis and the “D” Risks worksheets that you completed in Section 2 to help you identify the issues your farm business needs to address. Answer the following questions for each issue:

- 1. What is the issue?** (In this context, an issue is a fundamental challenge that if not addressed will adversely affect the business, its mission, products, the owners, consumers, the environment, etc.)
- 2. Why is it an issue?** (How will it affect the mission, products, the owners, consumers, the environment, etc.)
- 3. What is the time frame?** (When will it affect the business? Generally, more than one year is needed to be a strategic issue and not an operational one.)
- 4. What is the consequence of not addressing the issue?** (What will happen if this issue is ignored by management?)

Issue

Issue

Issue

Issues – Operational Versus Strategic Worksheet

Issue: _____

Factors	Operational ←————→ Strategic		
Time frame when the issue will affect the business.	now	within 1 year	beyond 1 year
How large of a financial risk to the business?	minor	moderate	major
Will the issue cause major change(s) in the physical facilities?	no		yes
Will the issue cause major changes in the staff employed by the business?	no		yes
Will the issue cause changes in the ownership of the business?	no		yes
What are the consequences of not addressing the issue?	slight	moderate	severe
How sensitive is this issue to the community, political environment, values of business members, families involved, and so on?	little		severe

Adapted from Bryson, John M.; Strategic Planning for Public and Nonprofit Organizations; Jossey-Bass Publishers; 1995.

STRATEGY – ACTION PLAN

Issue: _____

1. What are some alternative actions to address the issue? Pick the best alternative.**2. What are the barriers to action?****3. Action plan:**

What (Action for this Issue)	Who is Responsible	Completion Date	Cost

4. How will you evaluate the result of addressing this issue?

OPERATING AGREEMENT WORKSHEET

An operating agreement is a contract among the business members/owners that outlines the ownership, control, and management of the business. This worksheet helps guide these discussions and can be shared with your attorney so he/she can write the operating agreement.

Operating Agreement Worksheet

Purpose and Enterprises

What are the purpose and enterprises for this business?

Establishing Ownership and Ownership Plans

Who are the members? How will they become members? Will it be contributions of capital such as livestock, machinery, or cash in exchange for ownership interests? Will sweat equity be used? Will the owner generation gift a percentage interest to the successor generation?

How will the successor build ownership over time? Will it be sweat equity based on hours or time worked, accomplishments or milestones reached? Or will they purchase more ownership over time with installment payments?

How will the assets in the business be valued? By an appraiser? How often will the value be assessed? Only at the start of the agreement or annually as the transfer of assets continues? Will the value increase or decrease over time according to a formula, or in connection with another figure (inflation, land prices, interest rates)?

Which of the business assets will be in the enterprise and owned together and what assets will remain separate (such as land)? How will these remaining assets be eventually transferred to the successor if they are integral to the business continuing?

If an owner wants to leave the business, is there a plan for buying and selling percentage interests?

CONTINUED ON NEXT PAGE

Operating Agreement Worksheet – Continued

Financial Matters

What is everyone contributing to the business financially?

Will profits be distributed based on capital ownership? Or will they be distributed on management contributions? Or some other way?

How will profits and losses be handled?

Will all profits be put back into the business?

If profits are reinvested into the business and taxes are paid at the individual level rather than the entity level, how will individuals pay for income taxes if there are profits?

If there are losses, will everyone contribute to pay those losses based on his or her percentage ownership?

When will these decisions be made and who will make these decisions?

CONTINUED ON NEXT PAGE

Operating Agreement Worksheet – Continued

Management Matters

Note: Attorneys may not want to include specific details on management decisions in the operating agreement. However, how decisions are going to be made is an important conversation and should not be overlooked throughout the process.

Who will make the day-to-day decisions? Will it be member-managed or will there be a manager identified?

What is the protocol for making day-to-day decisions?

How are you going to define day-to-day decisions vs. “big” or long-term decisions?

Are there particular roles, responsibilities, or benefits of any members or managers you want to specify?

Meeting and Voting Matters

Will you have an annual meeting and, if so, when?

How are members informed about the meeting and how is it conducted (face-to-face, teleconference, web conference)?

Who has voting rights and what are they based on? Will they be based on percentage of ownership?

CONTINUED ON NEXT PAGE

Operating Agreement Worksheet – Continued

“Big” Decisions

Will you allow additional members and, if so, who decides who becomes a member? Can it be someone from outside the family?	
What happens if a member wants to leave or if a member’s interest in the company is somehow passed on to someone else?	
Who decides whether the company takes on debt? Is there a dollar limit on member purchases without discussion with other members?	
Who decides whether to close the company?	
Who decides whether the existing members can make additional capital contributions?	
Who decides on amendments to the operating agreements?	
Who decides whether the company can be sold to another company?	
How are all other “big” decisions (i.e., non-day-to-day decisions) made?	

Resources:

Armstrong, Rachel, Erin Hannum, Laura Fisher, and Lisa Schlessinger. “Going Deeper into LLCs, Checklist: Preparing Your Farm’s LLC Operating Agreement,” in *Farmer’s Guide to Business Structures: LLCs, Corporations, Partnerships and More*. Brentwood, MD: SARE Outreach Publishers, 2017. farmcommons.org

Center for Agriculture & Food Systems. “Farmland Access Legal Toolkit.” farmlandaccess.org

INTERVIEWING PROFESSIONALS FOR FARM SUCCESSION PLANNING

If you do not already have an attorney or tax specialist, here are a few questions you may want to ask as you interview potential service providers. Use this worksheet (and make several copies if you are interviewing more than one professional) to evaluate their services and how they match with your needs.

Seek recommendations from friends, family members, or neighbors. Ask why they liked the professional and if they were happy with his or her work. You can also ask other service professionals for recommendations.

Interviewing Professionals Worksheet

Professional's Name: _____

Contact Information: _____

Location: _____

1. What are your qualifications/credentials/training?

2. Do you work specifically with business succession and estate planning for farm families?

3. How long have you worked in this area of law (or accounting, tax planning, etc.)?

4. What continuing education have you participated in on this topic?

CONTINUED ON NEXT PAGE

Interviewing Professionals Worksheet – Continued

<p>5. What will this service cost? What is the fee structure? Is it per hour or a flat fee for a finished plan?</p>	
<p>6. Do you provide a free initial consult? If yes, how long is that meeting? 30 minutes, an hour, unlimited?</p>	
<p>7. Who in your firm will work on my behalf? Will you pass this task to a junior associate or paralegal or another person in your business?</p>	
<p>8. How will we communicate and how often? By phone, email, or office visit? Will we communicate weekly or monthly?</p>	
<p>9. How many of these documents have you drafted in the past?</p>	
<p>10. Can you share names of other clients with similar needs that I might interview?</p> <p>(Professionals will need permission from clients to share this information, or they may say they cannot or will not share because all of their work is confidential.)</p>	

CONTINUED ON NEXT PAGE

Interviewing Professionals Worksheet – Continued

11. How long will it take this work to be completed?	
12. What information or documents will I need to bring to the first meeting to make our time most efficient?	
13. Do you require meeting in your office? Or are you willing to travel for meetings?	

Be specific about what type of services you need. Many attorneys specialize in areas such as these:

- Business succession
- Estate planning
- Employment law
- Environmental law
- Eldercare law
- Divorce
- Litigation
- Leases and easements

Some tax specialists work only on tax planning. If you want guidance on accounting, financial analysis, or investment/retirement planning, you should ask if they offer these services.

After meeting/interviewing the service professional, you should evaluate the ease you experienced while talking with them. You should feel comfortable and respected when working in a close and confidential relationship with the professional.

Resource:

Melissa O'Rourke, Evaluating Your Estate Plan: Estate Planning Attorneys: Finding One Who Can Work For You. Ag Decision Maker. Iowa State University Extension. File C4-61. April 2012.

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Farm Financial Statements

Ag Decision Maker

File C3-56

The financial position and performance of a farm business can be summarized by four important financial statements. The relationship of these statements is illustrated below. Information from these statements can be used:

- to make important financing and investment decisions
- to substantiate credit applications
- to derive performance measures for analyzing the farm business
- to develop budgets for planning purposes

The major statements and their purposes are as follows:

Net Worth Statement—Summarizes the property and financial assets owned, the debts owed, and the net worth of the business at a point in time.

Net Income Statement—Summarizes the income generated, the expenses incurred, and the net income earned by the business during a period of time.

Statement of Cash Flows—Summarizes all the sources and uses of cash by the business during a period of time.

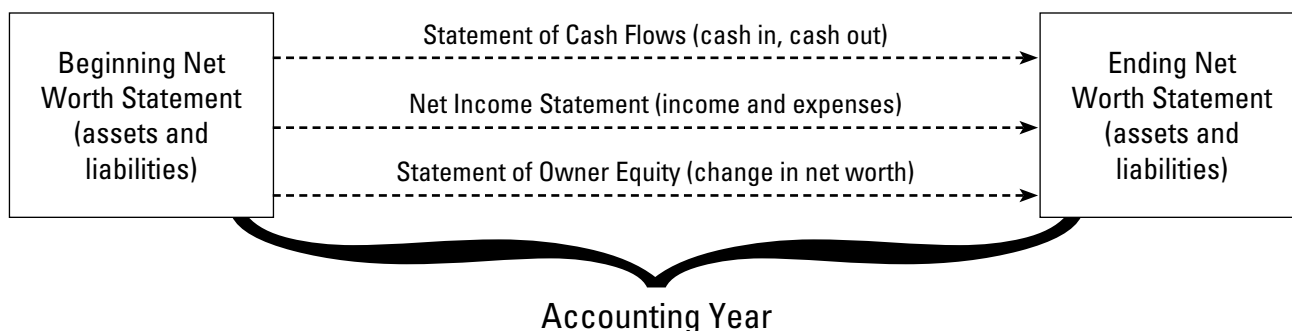
Statement of Owner Equity—Shows how net worth changed from the beginning to the end of the year.

Forms for preparing each of these statements are found in this publication, or in *Decision Tool, Comprehensive Financial Statements* (download Excel file at www.extension.iastate.edu/agdm/wholefarm/xls/c3-20-25-55comprfinstatements.xlsx). Several supplemental schedules also are provided, on which assets and liabilities can be listed and subtotals of their values carried forward to the statements. Most of the information can be taken from the same sources used to prepare a farm income tax return, plus a listing of assets owned and liabilities owed.

More detailed information can be found in the following ISU Extension and Outreach publications:

- *Your Net Worth Statement* (FM 1791/AgDM C3-20) <https://store.extension.iastate.edu/Product/1814>
- *Your Farm Income Statement* (FM 1816/AgDM C3-25) <https://store.extension.iastate.edu/Product/1822>
- *Financial Performance Measures for Iowa Farms* (FM 1845/AgDM C3-55) <https://store.extension.iastate.edu/Product/1837>
- *Twelve Steps to Cash Flow Budgeting* (FM 1792/AgDM C3-15) <https://store.extension.iastate.edu/Product/1815>

Relationship of the four major financial statements



... and justice for all

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Farm Financial Statements

Net Worth Statement

Name _____

Date _____

Farm Assets	Cost Value	Market Value	Farm Liabilities	Market Value
Current Assets (cost and market values are the same)			Current Liabilities	
Checking, savings accts. (Sch. A)			Accounts payable (Sch. P)	
Hedging accounts (Sch. A)			Farm taxes due (Sch. Q)	
Crops held for sale/feed (Sch. B)			Current notes and credit lines (Sch. R)	
Investment in annual crops (Sch. C)			Accrued interest - current (Sch. R)	
Commercial feed on hand (Sch. D)			- fixed (Sch. S)	
Prepaid expenses (Sch. E)			Principal due on notes and contracts	
Market livestock (Sch. F)			Due in 12 months - fixed (Sch. S)	
Supplies on hand (Sch. G)				
Accounts receivable (Sch. H)			Other current liabilities	
Other current assets			Other current liabilities	
a. Total Current Assets			d. Total Current Liabilities	
Fixed Assets (cost and market values may differ)			Fixed Liabilities	
Unpaid co-op. distributions (Sch. I)			Notes and contracts, principal due beyond 12 mos. (Sch. S)	
Invest. in perennial crops (Sch. J)			- Machinery	
Breeding livestock (Sch. K)			- Land	
Machinery & equipment (Sch. L)			- Other fixed assets	
Buildings/improvements (Sch. M)				
Farmland (Sch. N)			Other fixed liabilities	
Farm securities, certificates (Sch. O)			Other fixed liabilities	
Other fixed assets				
b. Total Fixed Assets			e. Total Fixed Liabilities	
c. Total Farm Assets (a + b)			f. Total Farm Liabilities (d + e)	
g. Farm Net Worth (c - f)				
h. Farm Net Worth Last Year			Working Capital (a - d)	
i. Change in Farm Net Worth (g - h)			Current Asset-to-Debt Ratio (a / d)	
Percent Change in Net Worth (i / h)			Total Debt-to-Asset Ratio (f / c)	
Personal Assets (optional)			Personal Liabilities (optional)	
Bank accounts, cash, savings			Credit card, charge accts., etc.	
Automobiles, boats, etc.			Automobile loans	
Household goods, clothing			Accounts payable, taxes due	
Stocks, bonds, etc.			Other loans	
Real estate			Real estate, other long-term loans	
Other personal assets			Other personal liabilities	
j. Total Personal Assets			k. Total Personal Liabilities	
l. Total Personal Net Worth (j - k)			Personal Debt-to-Asset Ratio (k / j)	
m. Total Assets, Farm & Personal (c + j)			n. Total Liabilities, Farm & Personal (f + k)	
Total Net Worth, Market Value (g + l)			Overall Debt-to-Asset Ratio (n / m)	

Farm Financial Statements

Net Farm Income Statement

Name _____ Year _____

Income

Cash Income (numbers in () refer to IRS Sch. F)	Income Adjustments	Beginning	Ending
Sales of livestock bought for resale (1a)	Hedging accounts balance (Sch. A)		
Sales of raised livestock, grain, etc. (2)	Crops held for sale or feed (Sch. B)		
Cooperative distributions paid (3b)	Market livestock (Sch. F)		
Agricultural program payments (4b)	Accounts receivable (Sch. H)		
Crop insurance proceeds (6b)	Unpaid cooperative distributions (Sch. I)		
Custom hire income (7)	Breeding livestock (Sch. K)		
Other cash income (8)	Other current assets		
Sales of breeding livestock	Subtotal of income adjustments		
Hedging accounts withdrawals	b. Net income adjustment (ending - beginning)		
a. Total Cash Income	c. Total Farm Income (a + b)		

Expenses

Cash Expenses (numbers in () refer to IRS Sch. F)	Expense Adjustments (paid in advance)	Beginning	Ending
Car and truck expenses (10)	Investment in growing crops (Sch. C)		
Chemicals (11)	Commercial feed on hand (Sch. D)		
Conservation expenses (12)	Prepaid expenses (Sch. E)		
Custom hire (13)	Supplies on hand (Sch. G)		
Employee benefits (15)	Subtotal of adjustments		
Feed purchased (16)	e. Net adjustment (beginning - ending)		
Fertilizer and lime (17)	Expense Adjustments (due)	Beginning	Ending
Freight, trucking (18)	Accounts payable (Sch. P)		
Gasoline, fuel, oil (19)	Farm taxes due (Sch. Q)		
Insurance (20)	Accrued interest (Sch. R + S)		
Interest paid (21a + 21b)	Subtotal of adjustments		
Labor hired (22)	f. Net adjustment (ending - beginning)		
Pension and profit-share plans (23)			
Rent or lease payments (24a + 24b)	g. Depreciation (Sch. J + L + M)		
Repairs, maintenance (25)	h. Total Farm Expenses (d + e + f + g)		
Seeds, plants (26)			
Storage, warehousing (27)	i. Net Farm Income from Operations (c - h)		
Supplies purchased (28)			
Taxes (farm) (29)	j. Sales of farmland (Sch. N, col. d)		
Utilities (30)	k. Cost value of land sold (Sch. N, col. b)		
Vet. fees, medicine, breeding (31)	l. Capital gains or losses (j - k)		
Other cash expenses (32)			
Livestock purchased	m. Net Farm Income (accrual) (i + l)		
Hedging accounts deposits			
d. Total Cash Expenses			
Net Farm Income (cash) (a - d)	Value of Farm Production (c - purchases of feed & livestock)		

Farm Financial Statements

Statement of Cash Flows

Name _____ Year _____

	Cash In	Cash Out
Cash farm income and expenses (operating)		
Total cash income (line a, net farm income statement)		xxx
Total cash expenses (line d, net farm income statement)	xxx	
Capital assets (investing)		
Sales of capital assets (Sch. L, col. c. + M, col. c. + N, col. d. + O, col. c.)		xxx
Cost of purchases and trades (Sch. J, col. b. + L, col. b. + M, col. b. + N, col. c. + O, col. b.)	xxx	
Loans (financing)		
New loans received		xxx
Principal paid on loans	xxx	
Nonfarm (withdrawals)		
Nonfarm income invested in the farm business		xxx
Cash withdrawn from the farm for family living, taxes, savings, etc.	xxx	
Cash on hand (balance in farm checking and savings accounts)		
Beginning of year (Sch. A)		xxx
End of year (Sch. A)	xxx	
Total of cash in and cash out*		

*If all cash transactions are included correctly, the totals for the two columns will be approximately equal.

Statement of Owner Equity

Name _____ Year _____

	Cost Value	Market Value
a. Farm net worth, beginning of year		
(Line g, beginning net worth statement)		
b. Change in market value of capital assets (net of depreciation)	xxx	
(Line i, ending net worth statement, market value _____ minus cost value _____)		
c. Net farm income (accrual)		
(Line m, net farm income statement)	<i>same value for cost and market</i>	
d. Net nonfarm withdrawals: (nonfarm income invested - cash withdrawn)		
(see statement of cash flows)	<i>same value for cost and market</i>	
e. Calculated change in net worth (b + c + d)		
f. Farm net worth, end of year (Line g, ending net worth statement)		
g. Actual change in net worth (f - a)		
(line e should approximately equal line g)		
h. Percent of net farm income retained in the business this year ((c + d) / c)	%	xxx
i. Percent of change in market value net worth from retained earnings this year (g, cost value / g, market value)	%	xxx

Name	Year
------	------

Description (include farm-related checking and savings accounts)	Balance
Total checking and savings balances	
Hedging accounts balances (total)	

Description	(a) Quantity	Unit	(b) Price	Value (a x b)
Total	xxx	xxx	xxx	

Description	(a) Acres	(b) \$/acre	Value (a x b)
Total		xxx	

Description/Species	(a) Quantity	Unit (lb., ton)	(b) Price	Value (a x b)
Total	xxx	xxx	xxx	

Description	(a) Quantity	Unit	(b) Price	Value (a x b)
Total	xxx	xxx	xxx	

Farm Financial Statements

Schedule F. Market Livestock

Description	(a) Number	(b) Average Weight (lbs.)	(c) Total Weight (lbs.) (a x b)	(d) Price per Pound	Value (c x d)
Total	xxx	xxx	xxx	xxx	

Schedule G. Supplies on Hand

Description	(a) Quantity	Unit	(b) Price	Value (a x b)
Total	xxx	xxx	xxx	

Schedule H. Accounts Receivable*

Description	Value
Total	

Schedule I. Unpaid Cooperative Distributions

Description	Value
(a) Total value from previous year	
(b) Value of distributions earned this year	
(c) Value of distributions paid in cash this year	
Total value this year (a + b - c)	

*Include product sales, government program payments and crop insurance payments earned but not yet received.

Farm Financial Statements

Schedule J. Investment in Perennial Growing Crops

Description	(a) Previous Year Value	(b) New Investment	(c) Remaining Life, Years	(d) Depreciation (a + b) / c	Value (a + b - d)
Total			xxx		

Schedule K. Breeding Livestock

Description	(a) Number	(b) Price per Head	Value (a x b)
Total		xxx	

Schedule L. Machinery and Equipment

Annual depreciation rate = _____ %*

Description (items can be aggregated)	(a) Previous Cost Value	(b) Cost of Purchases and Trades	(c) Income from Sales	(d) Depreciation* (% rate x (a + b - c))	New Cost Value (a + b - c - d)	Market Value (estimate)
Total						

* Depreciation rate of 10% suggested.

Schedule M. Buildings and Improvements

Annual depreciation rate = _____ %*

Description (items can be aggregated)	(a) Previous Cost Value	(b) Cost of Purchases and Trades	(c) Income from Sales	(d) Depreciation* (% rate x (a + b - c))	New Cost Value (a + b - c - d)	Market Value (estimate)
Total						

* Depreciation rate of 5% suggested.

Schedule N. Farmland

Description	(a) Number of Acres	(b) Previous Cost Value	(c) Cost of New Purchases	(d) Revenue from Land Sold	(e) New Cost Value* (b + c)	(f) Market Value per Acre (estimate)	Total Market Value (a x f)
Total						xxx	

* Zero if land has been sold.

Farm Financial Statements

Schedule O. Securities and Certificates (farm-related stocks, bonds, shares, etc.)

Description	(a) Beginning Value	(b) Value of New Purchases & Investments	(c) Value Sold or \$ of Cash Withdrawn	Ending Value (a + b - c)
Total				

Schedule P. Farm Accounts Payable

Description	Value
Total	

Schedule Q. Farm Taxes Due

Description	Value
Total	

Schedule R. Current Notes and Credit Lines

Source and Purpose	(a) Interest Rate %	(b) Days since loan rcd. or last payment made	(c) Balance Owed	Accrued Interest $\left(\frac{a \times b \times c}{365}\right)$
Total	xxx	xxx		

Schedule S. Fixed Notes and Contracts

Source and Purpose	(a) Interest Rate %	(b) Days since loan rcd. or last payment made	(c) Balance Owed	(d) Principal due, next 12 months	Principal due beyond 12 months (c - d)	Accrued Interest $\left(\frac{a \times b \times c}{365}\right)$
Total	xxx	xxx				

Cultivating Your Farm's Future

A workbook for

FARM SUCCESSION

PLANNING IN PENNSYLVANIA



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