

Case Study 2: Comparison Summary of all Scenarios

	Status Quo	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
	Scenario	<i>(taking over, renting equip)</i>	<i>(taking over, buying equip)</i>	<i>(buying home, renting 3/4, buying 300,000 equip)</i>	<i>(buying home, renting 3/4, custom spraying)</i>	<i>(buying home 1/4 only, working full time)</i>
	(Upcoming Year)	(Year 2 After Change)	(Year 2 After Change)	(Year 2 After Change)	(Year 2 After Change)	(Year 2 After Change)
Accrued Farm Revenue (inc. custom work)	124,700	704,595	704,595	369,215	429,215	181,525
Accrued Farm Expense	108,481	626,539	634,382	315,095	334,686	192,347
Net Accrued Farm Income	16,219	78,056	70,213	54,120	94,529	-10,822
Return on Assets (incl. living)	-3.02	5.44	2.97	2.56	4.77	-1.59
Return on Equity (incl. living)	-10.40	8.86	7.22	2.55	12.26	-21.48
Return on Assets (excl. living)	4.91	8.74	5.04	5.20	7.14	1.92
Return on Equity (excl. living)	5.06	18.69	17.83	13.54	21.08	-3.50
Non farm wages (net after tax)	60,000	30,000	30,000	50,000	30,000	60,000
Living costs	45,000	45,000	45,000	45,000	45,000	45,000
Income tax (farm portion only)	3,000	5,000	5,000	5,000	8,000	0
Debt Service Capacity	46,232	102,851	164,928	130,715	168,574	51,333
Debt Service Requirement	34,704	76,929	140,263	110,263	150,235	83,596
Debt Service Ratio	1.33	1.34	1.18	1.19	1.12	0.61
Budget Surplus	11,528	25,922	24,665	20,452	18,339	-32,263
Lifestyle Ratio (net farm inc, net wages, int. inc.)	76,219	108,056	100,213	104,120	124,529	49,178
Maximum Operating Loan Req.	42,754	289,972	218,783	81,751	77,247	90,525
Closing Current Ratio	1.36	1.24	0.96	1.05	0.94	0.62
Closing Debt to Equity Ratio	1.00	2.66	5.21	3.81	3.64	3.93
Closing Equity Ratio	0.50	0.27	0.16	0.21	0.22	0.20

Pros for this Scenario:	<ul style="list-style-type: none"> - doesn't require change - outcome is stable and predictable - low level of risk overall 	<ul style="list-style-type: none"> - greater profitability - consistent with personal and business goals - greater potential for profit and growth - meets parents goals as well 	<ul style="list-style-type: none"> - as in Scenario 2 - gives parents better return from their equipment 	<ul style="list-style-type: none"> - greater financial returns meeting goals, etc., than in No Change Scenario - less risk than taking over the whole operation - can bring in the rest of the acreage later - still allows parent to make transition they want 	<ul style="list-style-type: none"> - strong financial returns, consistent with goals, etc. - spread the risk over another enterprise - no non farm employment for Tyler allowing more time to manage farm 	<ul style="list-style-type: none"> - allows them to move to the farm - smaller operation means lower levels of financial and operational risk - ability to expand later
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Cons for this Scenario:	<ul style="list-style-type: none"> - continuing on as is will result in continuing to live in town, and unlikely lead to a viable farming operation - parents will not likely be able to continue to allow use of equipment indefinitely - inconsistent with goals 	<ul style="list-style-type: none"> - high leverage results in high financial risk - vulnerable to drops in revenue - could severely impact on ability to service debt - parents forgo revenue by providing financial incentives 	<ul style="list-style-type: none"> - as in Scenario 2 - more highly leveraged, so more financial risk - slightly poorer returns overall for Tyler & Chrystal 	<ul style="list-style-type: none"> - less potential for profit - won't have all of parents' equipment available - will continue to work off farm at a higher level - adding the rest of the land later may be difficult 	<ul style="list-style-type: none"> - starting a new enterprise with unknown results - extra work stress at busy times of the year - won't have all parent's equipment available - high payments until the sprayer is paid off - financially dependent on getting enough custom work 	<ul style="list-style-type: none"> - lower level of financial return - insufficient financial performance to meet needs - need to continue with non farm employment - provides less resolution to parents' situation - inconsistent with goals - can't afford to purchase parent's home quarter
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