

Case Study: Pre Sucession Plan

Comparison Summary of all Scenarios for The Wheat Farm (Retiring Farmers)

	<u>Original Case Study</u>		<u>Scenario 2</u>	<u>Scenario 3</u>	<u>Scenario 4</u>	<u>Scenario 5</u>
	<u>Status Quo</u>	<i>(Tyler & Chrystal take over, rent equip)</i>	<i>(sell home, sell equipment to Tyler & Chrystal</i>	<i>(rent six quarters to 3rd parties, sell \$400,000 equip, invest @5%</i>	<i>(rent six quarters to 3rd parties, sell \$400,000 equip pay off all debt)</i>	<i>(rent all land to 3rd parties, sell \$600,000 equip, pay debt, invest)</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 (incl. interest income)	447,500	156,772	113,700	142,100	122,100	78,500
Accrued Farm Expense	372,220	150,366	104,922	104,846	82,100	13,500
Net Accrued Farm Income	75,279	6,406	8,778	37,254	40,000	65,000
Return on Assets	2.66	-0.39	-0.30	0.68	0.00	0.95
Return on Equity	1.72	-1.33	-1.23	-0.11	0.00	0.95
Non farm income	15,000	15,000	15,000	15,000	15,000	15,000
Living costs	30,000	40,000	40,000	40,000	40,000	40,000
Income tax	15,000	5,000	5,000	10,000	10,000	15,000
Debt Service Capacity	142,004	51,455	8,306	31,782	11,000	31,000
Debt Service Capacity (adding in loan principal payments from Tyler and Chrystal)	nothing added	nothing added	add 46,667	add 20,000	add 20,000	add 6,667
Debt Service Requirement	142,004	51,455	54,973	51,782	31,000	37,667
Debt Service Ratio	107,451	38,050	38,050	38,050	0	0
Debt Service Ratio (adding in loan principal payments from Tyler and Chrystal)	1.32	1.35	0.22	0.84	No debt	No debt
Budget Surplus	nothing added	nothing added	add 46,667	add 20,000	add 20,000	add 6,667
Budget Surplus (add in loan principal payments from Tyler and Chrystal)	1.32	1.35	1.44	1.36	No debt	No debt
Lifestyle Ratio (net farm inc + non farm income)	34,553	13,405	-29,744	-6,268	11,000	31,000
Maximum Operating Loan Req.	nothing added	nothing added	add 46,667	add 20,000	add 20,000	add 6,667
Closing Current Ratio	34,553	13,405	16,923	13,732	31,000	37,667
Closing Debt to Equity Ratio	90,279	21,406	23,778	52,254	55,000	80,000
Closing Equity Ratio	81,290	0	0	0	0	0
	3.48	3.71	2.94	2.75	No debt	No debt
	0.18	0.13	0.13	0.13	0.00	0.00
	0.85	0.88	0.88	0.89	1.00	1.00

Pros for this Scenario:	<ul style="list-style-type: none"> - most profitable for the parents - will result in continued growth and build up of equity in the operation - allows parents to continue to control all their farm assets 	<ul style="list-style-type: none"> - provides great opportunity to Tyler and Chrystal - provides a phase out plan for Bill and Edna - retains all existing farm assets in the operation 	<ul style="list-style-type: none"> - similar to Scenario 1 - returns are very similar overall. DS ratio appears to worsen, but remains similar as equip. rental now changes to principal payment 	<ul style="list-style-type: none"> - less financial support to Tyler and Chrystal results in better returns to parents - less risk to Bill and Edna - provides for a financial cushion for Bill and Edna 	<ul style="list-style-type: none"> - as in Scenario 3, but with better financial results as debt with a higher interest than investmensts are returning is being paid off - risk is further reduced with all debt being retired 	<ul style="list-style-type: none"> - financial support to Tyler & Chrystal is minimal - no debt - assured income is more than enough to meet all financial demands - more equitable to other children - allows for full retirement
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Cons for this Scenario:	<ul style="list-style-type: none"> - continued high levels of demands on Bill and Edna - limited opportunity for Tyler and Chrystal to expand operations 	<ul style="list-style-type: none"> - financial returns to Bill and Edna are low - Bill and Edna loose management control over a significant portion of their assets to Tyler and Chrystal - risks change - operational risk drops, risks they can't control increase - tax implications 	<ul style="list-style-type: none"> - as in Scenario 1 - there may be some tax implications to financing equipment at 0% interest - other tax implications 	<ul style="list-style-type: none"> - loss of \$400,000 of equip. to the family may result in extra costs later if Tyler & Chrystal want to farm all the land - 6 1/4s will now be farmed by a third party - loss of assets to the farm operation - moving away from goals - tax implications 	<ul style="list-style-type: none"> - as in Scenario 3 - with the investment now being gone, if they decide to resume operations will need to borrow the funds - loss of assets to the farm operation - moving away from goals - tax implications 	<ul style="list-style-type: none"> - takes the whole family further away from next generation taking over the farm - there will be little involvement in future operations for Bill and Edna - They may find the transition difficult - possibly major tax implications
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