

APPENDIX

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From: Chapter 2, Phase 1: Background and Getting Started
 Transition Plan - Comprehensive Approach

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Initial Meeting				
Readiness Assessment					
	Goals				
	<i>Outstanding Tasks:</i>				
	Individual Values				
	<i>Outstanding Tasks:</i>				
	Family Values				
	<i>Outstanding Tasks:</i>				
	Family First / Business First				
	<i>Outstanding Tasks:</i>				
	Retiring Generation				
	<i>Outstanding Tasks:</i>				
	Succeeding Generation				
	<i>Outstanding Tasks:</i>				
	Financial Performance				
	<i>Outstanding Tasks:</i>				
	Management Assessment				
	<i>Outstanding Tasks:</i>				
	Personalities				
	<i>Outstanding Tasks:</i>				
	Historical Business				
	<i>Outstanding Tasks:</i>				

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Readiness Assessment Review Meeting				
	<i>Outstanding Tasks:</i>				
	Decision Time				
	<i>Outstanding Tasks:</i>				
	Statement of Intent				
	<i>Outstanding Tasks:</i>				
Plan Development					
	Foundation				
		Challenges in Transition Planning			
		Guiding Principles			
		Conflict Management			
		Resource Team Identification			
		Advisor Information Report			
	<i>Outstanding Tasks:</i>				
	Strategic Direction				
		Vision			
		Situational Analysis			
		Risk Assessment			
		Critical Issues			
		Critical Issue Action Plans			
		Financial Targets			
	<i>Outstanding Tasks:</i>				

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Strategic Direction Review Meeting				
	Transition Options				
		Successor Assessment			
		Ownership Options			
		Business Structure			
		Financial Performance – Transition Scenario			
	<i>Outstanding Tasks:</i>				
	Preliminary Advisor Review				
	Estate Plan Elements				
		Estate Distribution			
		Wills, Power of Attorney, Executor			
		Insurance			
	<i>Outstanding Tasks:</i>				
	Human Resources				
		Management Structure			
		Management Activities			
		Job Descriptions			
		Compensation			
		Training and Skill Set Development			
		Roles, Responsibilities and Authority			

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
Plan Implementation	<i>Outstanding Tasks:</i>				
	Agreements				
		Unanimous Shareholder Agreement			
		Business Agreements			
	<i>Outstanding Tasks:</i>				
	Deal Breaker Issues				
	<i>Outstanding Tasks:</i>				
	Transition Plan Review Meeting				
	Accountant Review				
	Lawyer Review				
	<i>Outstanding Tasks:</i>				
	Final Plan Adjustments				
	Accountant / Lawyer Sign-off				
	<i>Outstanding tasks:</i>				
	Final Review Meeting				

From: **Chapter 2**, Phase 1: Background and Getting Started

Transition Plan - Condensed Approach

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Initial Meeting				
Readiness Assessment					
	Goals				
	<i>Outstanding Tasks:</i>				
	Retiring Generation				
	<i>Outstanding Tasks:</i>				
	Succeeding Generation				
	<i>Outstanding Tasks:</i>				
	Financial Performance				
	<i>Outstanding Tasks:</i>				
	Management Assessment				
	<i>Outstanding Tasks:</i>				
	Statement of Intent				
	<i>Outstanding Tasks:</i>				
Plan Development					
	Foundation				
		Guiding Principles			
		Resource Team Identification			
	<i>Outstanding Tasks:</i>				
	Strategic Direction				

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
		Situational Analysis			
		Critical Issues			
		Financial Targets			
<i>Outstanding Tasks</i>					
	Transition Options				
		Successor Assessment			
		Ownership Options			
		Business Structure			
		Financial Performance – Transition Scenario			
<i>Outstanding Tasks:</i>					
	Preliminary Advisor Review				
	Estate Plan Elements				
		Estate Distribution			
		Wills, Power of Attorney, Executor			
		Insurance			
<i>Outstanding Tasks:</i>					
	Accountant Review				
	Lawyer Review				
<i>Outstanding Tasks:</i>					
	Final Plan Adjustments				
	Accountant / Lawyer Sign-off				
<i>Outstanding Tasks:</i>					
Plan Implementation					

From: Chapter 2, Phase 1: Background and Getting Started

Transition Plan - Estate Planning Approach

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Initial Meeting				
Readiness Assessment					
	Retiring Generation				
<i>Outstanding Tasks:</i>					
Plan Development					
	Transition Options				
		Succeeding Generation			
		Ownership Options			
		Business Structure			
		Financial Performance – Transition Scenario			
<i>Outstanding Tasks:</i>					
	Preliminary Advisor Review				
	Estate Plan Elements				
		Estate Distribution			
		Wills, Power of Attorney, Executor			
		Insurance			
<i>Outstanding Tasks:</i>					
	Accountant Review				
	Lawyer Review				
<i>Outstanding Tasks:</i>					
	Final Plan Adjustments				
	Accountant / Lawyer Sign-off				
<i>Outstanding Tasks:</i>					
Plan Implementation					

From: Chapter 2, Phase 1: Background and Getting Started

Transition Plan - Ownership and Tax Strategy Approach

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Initial Meeting				
Readiness Assessment					
	Retiring Generation				
	<i>Outstanding Tasks</i>				
	Financial Performance				
	<i>Outstanding Tasks</i>				
Plan Development					
	Transition Options				
		Ownership Options			
		Business Structure			
	<i>Outstanding Tasks</i>				
	Preliminary Advisor Review				
	Estate Plan Elements				
		Estate Distribution			
		Wills, Power of Attorney, Executor			
		Insurance			
	<i>Outstanding Tasks</i>				
	Agreements				
		Unanimous Shareholder Agreement			
		Business Agreements			
	<i>Outstanding Tasks</i>				

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
	Accountant Review				
	Lawyer Review				
	<i>Outstanding Tasks</i>				
	Final Plan Adjustments				
	Accountant/Lawyer Sign off				
	<i>Outstanding Tasks</i>				
Plan Implementation					

From: Chapter 2 (Phase 1: Background and Getting Started)

Transition Plan - User-Defined Approach

Phase	Topic	Sub-Topic	Date Started	Date Completed	Person Responsible
<i>Outstanding Tasks</i>					
<i>Outstanding Tasks</i>					
<i>Outstanding Tasks</i>					
<i>Outstanding Tasks</i>					
<i>Outstanding Tasks</i>					
<i>Outstanding Tasks</i>					
<i>Outstanding Tasks</i>					
<i>Outstanding Tasks</i>					

From **Topic 1, Chapter 4** (Phase 2: Readiness Assessment)

Goals

Name:

Date:

Personal:

Short Term (one year)

*SMART

Intermediate Term (five years)

*SMART

Long Term (10 years)

*SMART

***Review your goals to see if they meet the SMART guidelines.**

Make changes if necessary.

Name:

Date:

Family/Group:

Short Term (one year)

*

SMART

Intermediate Term (five years)

*

SMART

Long Term (10 years)

*

SMART

***Review your goals to see if they meet the SMART guidelines.
Make changes if necessary.**

Name:

Date:

Farm Business:

Short Term (one year)

*SMART

Intermediate Term (five years)

*SMART

Long Term (10 years)

*SMART

***Review your goals to see if they meet the SMART guidelines.
Make changes if necessary.**

Individual Values

1. From this list of values circle the ten that are most important to you.

- | | | |
|-----------------------------|-----------------------------|---------------------|
| accomplishment, success | flair | punctuality |
| accountability | freedom | quality of work |
| accuracy | friendship | recognition |
| adventure | fun | regularity |
| all for one and one for all | global view | reliability |
| appearance | goodwill | resourcefulness |
| beauty | goodness | respect for others |
| belonging | gratitude | responsiveness |
| best use of time and | hard work | results-oriented |
| calm, quietude, peace | harmony | rule of law |
| challenge | health | safety |
| change | helping | satisfying others |
| cleanliness, orderliness | honesty | security |
| collaboration | honour | self-acceptance |
| commitment | improvement | self-control |
| communication | independence | self-giving |
| community | individuality | self-reliance |
| competence | inner peace, calm, quietude | self-thinking |
| competition | innovation | service (to others, |
| concern for others | integrity | simplicity |
| connection | intensity | skill |
| content over form | intimacy | solving problems |
| continuous improvement | justice | speed |
| co-operation | knowledge | spiritual growth |
| co-ordination | leadership | stability |
| creativity | love, romance | standardization |
| customer satisfaction | loyalty | status |
| decisiveness | meaning | strength |
| delight of being, joy | merit | success, |
| democracy | money | systemization |
| discipline | openness | teamwork |
| discovery | patriotism | timeliness |
| diversity | peace, non-violence | tolerance |
| ease of use | perfection | tradition |
| efficiency | personal growth | tranquility |
| equality | pleasure | trust |
| excellence | power | truth |
| fairness | practicality | unity |
| faith | preservation | variety |
| faithfulness | privacy | will to succeed |
| family | progress | wisdom |
| family feeling | prosperity, wealth | |

2. Once you have circled the ten values that are most important to you, analyze your selections and narrow your list down to the five that are most important. List them here.

- a. _____
- b. _____
- c. _____
- d. _____
- e. _____

3. Now imagine that you may only keep three key values. Which two would you give up? List the remaining three here.

- a. _____
- b. _____
- c. _____

4. Now eliminate two values to reduce your list to just a single key value. What is the one value on your list that you care most about?

- a. _____

5. Now return to the list you created in question #3 and prioritize those five top values, from most important to least important.

- a. _____
- b. _____
- c. _____
- d. _____
- e. _____

From **Topic 3, Chapter 4** (Phase 2: Readiness Assessment)

Family Values

For each value statement pair, think of your extended family/planning group, and circle on the scale which one of the statement pairs is more descriptive of your family/group's values and beliefs (the overall family/group culture)?

Freedom is defined by rules.	4 3 2 1 0 1 2 3 4	Freedom is defined by personal choice.
An overall leader is essential.	4 3 2 1 0 1 2 3 4	Groups can provide their own leadership.
Use great caution when trusting others.	4 3 2 1 0 1 2 3 4	Trust others until they prove unworthy.
Security more valued than adventure.	4 3 2 1 0 1 2 3 4	Adventure is more important than security.
Experience is more important than creativity.	4 3 2 1 0 1 2 3 4	Creativity is more important than experience.
Hard work is the key to success.	4 3 2 1 0 1 2 3 4	Planning is the key to success.

From **Topic 4, Chapter 4** (Phase 2: Readiness Assessment)

Family First / Business First

For each category, mark an 'X' in the column to the left of the statement that you feel is a higher priority to your farm business.

Category	X	Family First	X	Business First
Membership		There is a place for each and every family member.		If you're qualified to do the job, you can join and belong.
Income (Compensation)		Family members are paid more (or less) than the going rate for the job, sometimes based on their or the business's needs.		Pay is determined by responsibilities and performance.
Leadership or Promotion		Leadership is bestowed. Title / office is bestowed by birthright.		Leadership is earned. Company officers control day-to-day operations.
Basis of Operation		Business resources are used for the family's enjoyment and benefit.		Business resources are used to grow and enhance the business.
Training		Outside experience may be less valuable than years of service in the family business.		Outside experience is more important than years of service in the family business.

Retiring Generation

Personal and Lifestyle:

1. What do you envision yourselves doing in retirement?
2. How much income will you need to live this way?
3. Do you have (or plan to have) retirement income sources other than the farm? If so, what percentage of your retirement income will come from the farm?
4. Have you thought about inflation pressures on costs of living and how this might impact your retirement needs?
5. Are you planning to purchase any costly items in the foreseeable future (first five years after retirement), such as a house, cottage, extensive travel, etc.
6. Do you wish to create a legacy as part of your transition?
7. Have you thought about yourself first?

Successor:

1. Who is taking over the family business?
2. Will he/she/they need additional training to do so and if so, what type(s)?

Communication:

1. Have you spoken with the successor(s) regarding the transfer of the farm?
 - a. If yes, what specifically has been discussed?
 - b. If yes, have the discussions been formal (ie: with notes recorded)?
2. Have you spoken to any advisors regarding the transfer of the farm?
 - a. If yes, what specifically has been discussed?
3. Do you have regular business or family meetings about business in general?
 - a. Specifically about transition?
4. Have you spoken to your non-farming successors regarding the transfer of the farm?
 - a. Is it important to you that all successors be given the opportunity to talk about their own expectations, goals and objectives, both personal and for the farm?
5. Are you worried about the potential for conflict?

Estate:

1. What does your current will say?
2. Does it accurately reflect your thoughts on transition?
3. Have you appointed a Power of Attorney?
4. Are you considering using (or do you have in place) life insurance as a vehicle to assist with transition?
5. Are you considering passing some of your estate to grandchildren?
6. Are you concerned about being fair and equitable to all successors?

Ownership, Labour and Management:

1. Who will own the farm assets post transition?
2. Who will be working on the farm?
 - a. Specifically, what role(s) will you have?
3. Who will be the manager of the farm?
4. What are the expectations for involvement from other successors?
5. Will the farm require management or ownership by anyone other than your successors?

Farm Financial:

1. Does the farm have a current business plan?
2. Do you know if the farm can financially support everyone's needs / priorities including the successors' living costs?
3. How will the transition be financed?
4. Do you know what tax implications are related to your transition?

Timeline:

1. When will you retire?
2. When do you want your transition plan to be completed?
3. When will the actual farm transition begin (implementation of your transition plan)?
4. Will the transition be gradual or all at once?

Succeeding Generation

Personal and Lifestyle:

1. What do you envision yourself doing during your working years?
2. How much income will you need to live this way?
 - a. If your future is farming, will your income decrease or stay the same?
3. Are you planning to purchase any costly items as part of or soon after farm transition, such as a house, cottage, other family recreation items, etc.?
4. Are you worried about the retiring generation not adequately looking after their interests?

Communication:

1. Have you spoken with the retiring generation regarding the transfer of the farm?
 - a. If yes, what specifically has been discussed?
 - b. If yes, have the discussions been formal (ie: with notes recorded)?
 - c. Have you been identified as the successor to the farm business?
2. Have you spoken to any advisors regarding the transfer of the farm?
 - a. If yes, what specifically has been discussed?
3. Have you spoken with your future business partner (spouse, brother etc.) regarding the transfer of the farm?
4. Do you have regular business or family/group meetings?
 - a. About business in general?
 - b. Specifically about transition?
5. Have you spoken to any non-farming siblings/successors regarding the transfer of the farm?
6. Do you think it is important that all successors be given the opportunity to talk about their own expectations, goals and objectives, both personal and for the farm?
 - a. Have you been given this opportunity?
7. Are you worried about the potential for conflict?

Education/Training:

1. Have you taken any management development training?
 - a. If so, describe it.
2. Have you taken/attended any other courses/workshops (university degree, college diploma, seminar etc.)?

Estate:

1. Do you have a current will?
 - a. If yes, what does it say?

Ownership, Labour and Management:

1. Who will own the farm assets post transition?
2. Who will be working on the farm?
 - a. Specifically, what role(s) will you have if you are actively involved?
3. Who will be the manager of the farm?
4. What are the expectations for involvement from other successors?
5. Will the farm require management or ownership by anyone other than the successors?

Financial:

1. Does the farm have a current business plan?
2. Do you know if the farm can financially support everyone's needs / priorities including the successors' living costs?
3. How will the transition be financed?
4. Do you know what tax implications are related to your transition?

Timeline:

5. When will the farm transition begin (implementation of the transition plan)?
6. When will it be completed?
7. When will the retiring generation retire?
8. Will the transition be gradual or all at once?

From **Topic 7, Chapter 5** (Phase 2: Readiness Assessment)

Financial Performance Ratios Explanation

Current Ratio

Definition:

The current ratio is calculated by dividing the current assets by the current liabilities and is a measure of liquidity.

The current ratio provides an indication of the liquid assets available to meet the next twelve months of financial commitments (the current liabilities). Working capital and the current ratio reveal strengths and weaknesses in liquidity (the ability of a farm to generate cash flow to meet obligations).

A higher number indicates better performance.

Financial Performance Thresholds:

- >2.0:1 The optimum current ratio is a ratio of 2:1 or better, which indicates that the farm would have two dollars of current assets for every one dollar of current liabilities. Results in this threshold indicate strong liquidity. If results in this ratio approach or exceed 4.0:1, performance may be compromised as the business may have idle cash.
- >1.5:1 A current ratio of 1.5:1 and greater is considered to be strong. A current ratio of 1.2:1 – 1.5:1 is considered to be marginal. Current ratios can change significantly with each production year. Liquidity can erode quickly on a farm, but results in this threshold indicate adequate or manageable liquidity.
- <1.1:1 A weak or negative current ratio generally results in cash flow problems, presenting as inability to pay bills as they come due or make scheduled debt payments. Poor liquidity adversely impacts management decision making. Results in this threshold should be reviewed to see if restructuring the debt would be an appropriate option.

Working Capital

Definition:

Working capital is calculated by subtracting the current liabilities from the current assets. The result is the surplus or deficiency of current assets available to meet the current liability obligations of the business over the upcoming year.

When analyzing liquidity, it is important to calculate and analyze the amount of available working capital. The current ratio may indicate a ratio of 1.5:1, yet working capital may not be adequate because the quantified values of current assets and current liabilities may be relatively small. In other words, a farm with a 1.5:1 current ratio may have actual working capital of \$20,000 or \$200,000.

Working capital provides an indication of liquidity in terms of dollars, not just a ratio. This is a

valuable measure but further analysis is required. Working capital expressed as a percentage of expenses quantifies the indicator as it relates to the size of the operation (ex: a larger operation requires more working capital).

Working capital as a percentage of expenses is calculated by dividing the available working capital by the year's cash expenses (not including amortization or depreciation). A higher percentage indicates better performance.

Financial Performance Thresholds:

- >50% A 50 per cent result means that the farm has half of the funds required to operate the farm for the next year. Any value less than 100 per cent means that the farmer will have to source additional working capital. Results in this threshold generally indicate that the working capital requirements for the next year will not be a problem. Typical sources of additional working capital in this threshold include operating loans and inventory advances.
- 25% As results near this threshold or fall below it, there will be increasing challenges in securing the working capital required to manage cash flow for the farm. Typical sources of working capital in this threshold still include operating loans and inventory advances but will also require pre-selling more of next year's inventory. There will likely be a need to increase operating loan limits. Where this is not an option, managing accounts payable becomes necessary
- <10% Results in this threshold indicate inadequate working capital, increasing cash flow challenges and related stress. Management decisions are negatively affected, meaning farmers will be forced to do things they wouldn't ordinarily want to do. Operating loans and inventory advances generally do not offer sufficient funds, resulting in overdue accounts payable, credit card balances, deferred principal payments (or payments not made) and pre-selling of next year's inventory.

Debt Structure Ratio

Definition:

The debt structure ratio is a liquidity measure and is calculated by dividing the current debt (liabilities) by the total liabilities. The purpose of this ratio is to determine what percentage of the farm's total debt is current (due) in the next 12 months.

Shareholder loans (for incorporated farms), related party transactions and future tax may be factored out of the calculation to get a better picture of the real debt structure position. Sometimes (imminent transition for example) these items have a defined repayment structure and, therefore, should be left in the calculation.

A lower percentage generally indicates better performance.

Financial Performance Thresholds:

- <20% An optimally structured balance sheet (given a farm that has an appropriate level of total debt) would reveal a debt structure ratio of 20 per cent or less, meaning that the farm is committed to repaying 20 per cent of its total debt in the next 12 months. Liquidity will generally not be adversely affected due to current liability commitments.
- 25% Results in this threshold are often acceptable, so long as liabilities are not too large. If cash flow (liquidity) is a challenge, management should determine if the debt structure can be adjusted to reduce the current commitment to repaying liabilities, thereby improving cash flow available for operations.
- >30% Farms with a high debt structure ratio often experience cash flow problems unless they have little or no long term debt. Liquidity challenges can be a function of insufficient current assets (see working capital and current ratio) or current liabilities that are too large, often associated with an aggressive debt repayment commitment.

Equity Ratio

Definition:

The equity ratio is calculated by dividing market value equity by total assets.

Equity represents the total assets actually owned (by shareholders in the case of a corporate farm). Typically, a statement reporting assets valued at estimated market values more accurately represents the owners' or shareholders' net worth, where asset values would be valued considerably higher than at cost.

In corporate farms, productive assets (usually land and quota) can be held outside the company and therefore are not included in the financial statement equity. An adjustment to include such assets can be made to the analysis of the statements so as to provide a more complete understanding of financial performance.

A higher percentage indicates better performance.

Financial Performance Thresholds:

- >70% A farm with an equity position, as presented in a consolidated statement of net worth, of 70 per cent and greater is considered to have a strong equity position. Farms in this threshold typically (but not always) have manageable liability commitments. They have financial strength to draw upon if they encounter a production crisis that requires a working capital infusion or if they encounter an opportunity that requires financing and additional security.
- 50-70% Farms with results in this threshold generally can be categorized as being in a comfortable equity position. As results trend toward the lower spectrum (50 per cent), farms become more sensitive to liquidity (cash flow) challenges resulting from production shortfalls or management decisions causing additional debt commitments.

<50% Threshold results below 50 per cent indicate a farm's equity position is marginal. As equity in a farming operation decreases, risk increases. Low equity usually correlates to challenges in liquidity. Management decisions will be negatively affected as there is, in practical reality, no available security to offer for any restructuring or to secure financing for new investments. The margin for financial error for farms with results in this threshold is very narrow.

Debt to Equity Ratio

Definition:

The leverage ratio is calculated by dividing total liabilities by the equity in the business.

This ratio indicates the relationship between the use of debt and equity to finance the farm business, and is a measure of longer term risk. Because payments to the debt holders (lenders) are normally more fixed than payments to the equity holders (the farmer), a higher leverage ratio indicates a higher fixed commitment (less flexibility), and therefore, higher risk. The leverage ratio can be calculated reporting assets at original cost (less applicable depreciation) or at market value (values derived from a statement of net worth). For purposes of this analysis, market value (net worth) of assets is assumed.

As the leverage ratio increases, risk increases. A lower percentage indicates better performance.

Financial Performance Thresholds:

- < 0.4:1 A leverage ratio of 0.4:1 (four hundred dollars of debt for every thousand dollars of equity) or less, derived from a net worth statement, is considered to be a strong leverage ratio. Less debt as a percentage of equity correlates to less risk.
- 0.65:1 As results approach this threshold, there is an increasing amount of debt compared to equity. Leverage is increasing but the farm will generally not yet be affected adversely by the amount of debt it is carrying. However, as results deteriorate past this threshold, the effect of carrying the additional debt will start to become an issue. In any situation where an investment is going to include a significant increase in financing (leverage), farmers should calculate before and after leverage ratios; which quantifies financial risk in the transaction. There is very little room for financial error.
- >1:1 Results in this threshold indicate a highly leveraged farm and indicate that creditors and lenders have more at stake in the business than the farmer. Greater financial risk results in increased costs of capital (higher interest rates and administration fees), increased scrutiny on the file, financial statement preparation requirements and difficulty (or impossibility) in securing additional financing.

Debt Servicing Ratio

Definition:

The debt servicing ratio is calculated by dividing debt servicing capacity by annual principal and interest payment commitments.

The debt servicing ratio indicates the earned ability of the operation to service (repay) its debt by making scheduled principal and interest payments.

The length of the term (years of payments) of the loan is important. The longer the term of the loan, the greater the chance for fluctuations in farm earnings over the term and, therefore, the greater the risk as the debt servicing ratio weakens.

Debt servicing capacity is calculated by adding amortization (non-cash cost) and long term interest expense to net income. For unincorporated farms where management salaries are not a deductible expense, living costs should be subtracted from the total, as should any known income tax payment amounts.

All farms should calculate before and after scenarios for debt servicing ratios for new loans. The exercise helps to quantify longer term risk in the transaction.

Financial Performance Thresholds:

- >2.0:1 A result in this threshold indicates that for every dollar of debt (principal and interest) payment, the farm expects to have two dollars available. Results in this threshold indicate very strong performance.
- 1.5 : 1 For grain or livestock operations, a 1.5:1 ratio and better is generally adequate. The ideal ratio may vary depending on the type of operation. For example, a 1.25:1 ratio might be comfortable for a dairy farm, given its relatively strong price and cash flow certainty.
- Caution should be exercised where financing a purchase results in debt servicing ratios that begin to approach 1.2:1. In this situation, the length of the term of the loan should be very carefully considered (see comments above).
- Note that the debt servicing ratio is very sensitive and directly tied to earnings. Decreasing net income decreases the debt servicing ratio. Past trend line performance is important.
- <1.1:1 Farms with results in this threshold will have difficulty generating the earned income required to make principal and interest payments. Farms may not be able to make payments as scheduled or, if they do, may be forced to do so by weakening liquidity indicators (increasing operating loans or selling additional inventory).
- Transactions that require additional financing and that cause the ratio to fall into this threshold will be very difficult to finance and should be pursued very carefully — **especially** if the equity ratio is weak.

Return on Assets Ratio

Definition:

Return on assets is calculated by dividing net income plus long term interest expense by total assets.

There are two options for the calculation: calculating based on assets valued at original cost (less accumulated amortization where applicable), and calculating based on assets valued at fair market value. The latter values are generally greater.

Incorporated farms will have financial statements with assets valued at cost. These farms typically own assets (land) personally. An adjustment should be made to include personally-held assets (farm business related) such as land.

For purposes of this analysis, financial performance thresholds are based on net worth (market value of land and quota assets, with equipment values not included in the adjustment).

An adjustment should also be made to account for unpaid or extraordinarily high family wages or management salaries.

This ratio is a measure of the return on investment made in the business and includes a return to capital appreciation. Year-over-year changes in this indicator tend to be smaller due to the large investment in assets required to operate a farm.

A larger number indicates better performance.

Financial Performance Thresholds:

- >6% Results in this threshold over a longer-term period generally represent good performance. A six per cent return on assets means that a farmer who has \$1 million in assets will have a net income of \$60,000. Farmers who are considering expanding their operation should determine if this performance is acceptable and, if not, determine what can be done to improve performance or search for different investment opportunities.
- 2% All farmers should determine what portion of the return comes from operations and what portion comes from capital appreciation. This calculation is particularly important for farmers whose return on assets is in or near the two per cent threshold. If the portion of the return due to land and quota is two per cent or greater, no return came from earnings attributed to business operations. In this situation, a farmer must determine what can be done to generate a positive return from operations. Businesses that cannot generate a longer term positive return from operations will fail.
- <0% Farmers with longer term results in this threshold will be challenged financially and the likelihood of longer term survivability in the farm's existing form will be very poor. Farms with results in this threshold will, in almost all situations, be reporting net losses. Financial efficiency ratios (gross margin/contribution margin/net operating profit margin) should be analyzed to determine what can be done to improve earnings. It is important to note the number of years in the trend line. Farms with good debt to equity performance can usually manage through periods of low or negative return on assets. This becomes more difficult as debt to equity performance deteriorates.

Return on Equity Ratio

Definition:

Return on equity is calculated by dividing net income by equity (or retained earnings).

There are two options for the calculation: calculating based on valuing assets at original cost (less accumulated amortization where applicable) and calculating based on valuing assets at fair market value. The latter values are generally greater.

Incorporated farms will have financial statements with assets valued at cost. These farms will very likely own assets (land) personally. An adjustment should be made to include personally-held farm business assets such as land.

For purposes of this analysis, financial performance thresholds are based on net worth (market value of land and quota assets with equipment values not included in the adjustment).

An adjustment should also be made to account for unpaid or extraordinarily high family wages or management salaries.

Return on equity (ROE) provides information on how efficiently the farm is using debt in its capital structure. Return on equity should exceed return on assets (ROA) for farms that borrow money. If return on assets is greater, it indicates that the farm is not earning enough to pay its interest cost on borrowed money. ROE equals ROA when there is no debt.

Year-over-year changes in this indicator tend to be smaller due to the large investment in assets required to operate a farm.

A larger number indicates better performance.

Financial Performance Thresholds:

- >10% Results in this threshold over a longer-term period generally represent good performance. A 10 per cent return on equity means that a farmer who has \$1 million in market value equity will have a net income of \$100,000.. Farmers who are considering investing in or expanding their operations should determine if this performance is acceptable and, if not, determine what can be done to improve performance or search for different investment opportunities.
- 6% All farmers should determine what portion of the return comes from operations and what portion comes from capital appreciation. This calculation is particularly important for farmers whose return on equity is at or near the six per cent threshold. If the portion of the return due to land or quota appreciation is three per cent or greater, then three per cent came from earnings attributed to business operations.

For many farmers, this level of performance (especially over a longer term trend line) is acceptable.
- <2% If the return on equity increase due to land or quota appreciation is two per cent or greater, **no** return came from earnings attributed to business operations. If this is the situation, then the farmer should determine what can be done to generate a positive return from operations.

Farms with results in this threshold will, in almost all situations, be reporting net operating losses (unless land or quota values decrease). Farmers with longer term results in this threshold will be challenged financially, starting with liquidity management. The likelihood of longer term survivability in

the farm's existing form will be very poor. Financial efficiency ratios (gross margin/contribution margin/net operating profit margin) should be analyzed to determine what can be done to improve earnings.

Asset Turnover Ratio

Definition:

Asset turnover is calculated by dividing gross revenue by total assets.

This ratio indicates the extent to which a business uses its assets to generate revenue. The higher the ratio, the better the assets are being used. The ratio can vary with business type and geographic location (ex: inflated land values).

For purposes of this analysis, assets are based on net worth (market value assets, but only land and supply managed quota as equipment has not been adjusted for market value).

Note that profitability ratios (return on equity and return on assets) indicate performance as a function of net income. Asset turnover uses gross revenue as the function of profitability. Neither is better or worse; they each provide a different context regarding financial performance.

A higher percentage indicates better performance.

Financial Performance Thresholds:

- >40% Results in this threshold indicate that for every \$1,000 in assets, there should be \$400 generated in gross income. Farms achieving this level of performance are very efficient in how they use their assets to generate gross revenue.
- 20% Farms with results in this range will report very typical performance. A larger investment in assets, especially land and newer equipment, generally makes it more difficult to achieve optimal performance in this ratio. Poorer performance in this ratio can be attributed to excess investment in capital, new or overcapitalization in equipment or less than optimum gross revenue generation.

Lower gross revenue, coupled with increased interest costs due to financed asset purchases or additional amortization on new equipment, can reduce net income.
- <10% Results in this threshold indicate that a farm is not efficiently generating a return (as expressed by gross revenue) on its assets. The business needs to consider increasing gross revenue (yield or price) or decreasing investment in assets. The decrease in assets can be accomplished in the shorter-term by disposing of assets (lease options) or in the longer-term by not replacing equipment as frequently (lower value).

If asset turnover performance falls into poorer performance thresholds, first determine the root cause. If the issue is that land in the area is overvalued, less emphasis should be placed on this indicator.

Gross Margin Ratio

Definition:

Gross margin is calculated by subtracting seed and seed treatment, chemicals (herbicides, fungicides, pesticides), fertilizer, production insurance (for grain operations) and veterinary, medicines, feed and market animals (for livestock operations) from gross revenue, and then dividing that number by gross revenue.

This ratio measures the financial efficiency of a farm in terms of how it uses its production inputs.

Gross margin trend lines provide an excellent efficiency indicator that is worth monitoring as a farm grows in size or complexity.

A higher percentage indicates better performance.

Financial Performance Thresholds:

- >65% Results in this threshold indicate that the farm is very efficient at utilizing its production inputs. Gross margin ratio is one of the most important indicators to calculate and analyze. Farmers with longer-term trend lines at this level of performance can confidently proceed with expansion plans.
- 55% Farms reporting results in this threshold should determine why performance is less than desired and what can be done to improve it. The reasons for poor performance fall into the production (yield and inputs) and marketing (price) management areas but may be outside of a farmer's control (ex: weather). Because uncontrollable negative events such as severe weather do not usually occur regularly, performance trends should be analyzed.

Deteriorating gross margin performance often accompanies expansion and transition. Many farmers have trouble managing their operation as carefully as it grows, so production can suffer as a result.

Farms with these results should proceed with any expansion plans very carefully.
- <50% It is critically important that farms reporting results in this threshold determine why performance is less than desired. Farms that are not able to generate gross margin performance will not achieve acceptable levels of net operating performance. Further, they will almost always report net losses.

Contribution Margin Ratio

Definition:

Contribution margin is calculated by subtracting operating expenses (fuel, repairs, custom work, direct labour, supplies, etc.) from the gross margin. The ratio is calculated by then dividing the margin by gross revenue.

This ratio measures the financial efficiency of a farm in terms of how it uses its operating cost inputs.

After efficiency over production expenses has been calculated (gross margin), a farmer can determine how efficient he is at using the other variable costs. The contribution margin ratio provides this determination.

Adjustments should be made to account for unpaid or extraordinarily high wages.

A higher percentage indicates better performance.

Financial Performance Thresholds:

>50%	Results in this threshold indicate that the farm is very efficient at using its variable operating inputs.
45%	Poor results in gross margin performance will usually translate into poor contribution margin performance. A farm that reports results in this threshold but has acceptable gross margin performance should determine why performance is less than desired and what can be done to improve it. Unlike gross margin performance, the reasons for poor contribution margin performance do not fall into the production (yield and inputs) and marketing (price) management areas, and are within a farmer's management control.
<40%	Assuming acceptable gross margin performance, results in this threshold require management attention. Poor performance usually translates into less than desired net operating profit margins.

Net Operating Profit Margin Ratio

Definition:

Net operating profit margin is calculated by subtracting overhead and administrative costs (fixed) from the contribution margin. The ratio is calculated by then dividing the margin by gross revenue.

This indicator examines how efficient a farmer is at using his investment in fixed costs.

Adjustments should be made to account for unpaid or extraordinarily high wages or management salaries.

Amortization (depreciation) rates can have significant impact on performance. They should be calculated based on management rates (not tax rates) and applied on a straight line basis.

This indicator compares very well to non-farm businesses. A higher percentage indicates better performance.

Financial Performance Thresholds:

>20%	Results in this threshold indicate a very efficient farm in terms of generating net profit from its core operations.
10%	Farmers with results in this threshold have room for improvement. Remember that the denominator is gross revenue. This means that if a farm's net operating profit margin is \$100,000 and its gross revenue is \$1 million, its net operating profit margin ratio is 10 per cent. Performance should ideally be 20 per cent (\$200,000) or better, which means that a farm with a net operating profit margin ratio of 10 per cent is leaving \$100,000 - money could be used for investment and growth, to repay debt or for personal needs – on the table. Because farms with better performance have access to this money, those farms have a significant competitive advantage.
<5%	Farmers with results in this threshold should determine what can be done to improve performance. A performance trend in this threshold will translate into

liquidity and solvency issues and will negatively affect management decisions.

Note: when gross margin and contribution margin performance meet acceptable thresholds but the net operating profit margin is low, a farmer might consider expanding the productive asset base, effectively spreading fixed costs over more productive units. This will improve net operating profit margin performance, providing that the expanded production base does not result in poorer gross margin performance or require additional fixed costs such as interest on term debt or amortization.

Interest Expense Ratio

Definition:

The interest expense ratio is calculated by dividing interest expense by gross revenue. Farms with more debt will have higher interest expense ratios.

The ratio is a good indicator of potential problems related to leverage (debt).

A lower number may indicate better performance. However, if a farm can effectively manage the risk associated with leverage (debt), including interest, then it is more important to analyze the return that is generated by using borrowed capital and managing its repayment.

Financial Performance Thresholds:

- <10% Farms with results in this threshold are generally not adversely affected by interest costs. Calculating before and after scenarios where additional loans are planned helps to quantify how interest will affect financial performance.
- 15% As in most ratios, farms with results in this threshold should monitor for deteriorating performance on performance trends. As this ratio weakens, more and more of the revenue generated (gross revenue) will go to pay interest, diverting it from other uses.
- >20% Results in this threshold warrant management attention. If the ratio is 20 per cent, \$200 of every \$1,000 of gross revenue will be required just to pay interest. There will very likely be increased sensitivity to interest rate increases.

Amortization Expense Ratio

Definition:

The amortization expense ratio is calculated by dividing amortization expense by gross revenue.

The ratio measures the amount of amortization (depreciation) relative to the level of sales (gross revenue).

A farm with newer equipment assets will have a higher amortization expense ratio. This indicates management priorities and investment guidelines.

The amortization expense ratio performance trend is important to monitor. A downward trend may indicate that capital replacement is lagging, while an upward trend might indicate an aggressive capital replacement policy. There is direct correlation between the amortization expense ratio and return on

assets and return on equity, as greater amortization expense (higher amortization expense ratio) will result in lower net income.

A lower number may indicate better performance.

Financial Performance Thresholds:

- | | |
|------|--|
| <10% | Farms with results in this threshold are generally not adversely affected by amortization costs. However, it may reveal other issues. A lower number can reveal aging equipment that usually results in increased operating costs (repairs and maintenance). Aging equipment can result in production delays, which may have negative impacts on yield, gross revenue and, ultimately, net income |
| 15% | Farms with results in this threshold should monitor for deteriorating performance trends relating to this ratio. As this ratio weakens, more and more of the revenue generated (gross revenue) will have to pay amortization costs. Net operating profit will be reduced. However, amortization is not a cash cost. Therefore, while net operating profit (profitability) may be reduced, cash flow (liquidity) may not be significantly affected. |
| >20% | Farms with results in this threshold should look for poor performance linkages in return on assets and equity ratios, debt to equity ratio, net operating profit margin ratio and asset turnover ratio to help determine the extent of the impact of amortization costs on financial performance. |

From **Topic 9, Chapter 5** (Phase 2: Readiness Assessment)

Personalities

Personality Style	PERSONALITIES - check which best reflects your Style below
'D' - Dominant	
'i' – Influence	
'S' – Steady	
'C' - Conscientious	

From **Topic 10, Chapter 5** (Phase 2: Readiness Assessment)

Historical Business Development

In the chart below, fill in as many important, pivotal or farm business-changing events as possible according to the following categories:

1. Year: enter the year that the significant event occurred.
2. Situation: briefly describe relevant details surrounding the significant event.
3. Outcome: describe what decisions were made and the shorter term result of these decisions.
4. Significance: describe how this particular event shaped the future of the farm and why its occurrence helped shape what the farm is today.

YEAR:
SITUATION:
OUTCOME:
SIGNIFICANCE:

YEAR:
SITUATION:
OUTCOME:
SIGNIFICANCE:

YEAR:
SITUATION:
OUTCOME:
SIGNIFICANCE:

YEAR:
SITUATION:
OUTCOME:
SIGNIFICANCE:

YEAR:
SITUATION:
OUTCOME:
SIGNIFICANCE:

From **Topic 11, Chapter 5** (Phase 2: Readiness Assessment)
Readiness Assessment Review Meeting

Date:

Time:

In Attendance:

1. Administration:

- a. Select one individual to act as the Chair of the meeting. Review their function and responsibilities (for help, review the job functions outlined in Chapter 3).
- b. Select one individual to act as the Notes Recorder of this meeting.
- c. Review decorum (optional)

2. Review previous meeting notes.

3. Outline the purpose of the meeting.

- a. to review the farm's readiness for transition planning;
- b. to make a decision whether or not to proceed with transition planning; and
- c. to address other concerns as needed.

4. Review the current situation:

- a. for each participant individually;
- b. for the group/family; and
- c. for the farm.
- d. General discussion and questions.

5. Discuss transition planning specifics:

- a. Discuss whether to proceed with the transition planning process (a formal decision will occur in the next Topic).
- b. Decide whether the management team will use an advisor/consultant during the decision making process.
 - i. If so, who?
- c. Decide how communication processes will be structured throughout the transition planning process.
- d. General discussion and questions.

6. Discuss concerns and issues:

- a. General discussion and questions.

7. Create timelines:

- a. Assign responsibilities with due dates.
- b. Set a date and time for the next meeting.

8. Adjourn

From **Topic 12, Chapter 5** (Phase 2: Readiness Assessment)

Decision Time

Goals

Do we have similar goals for the future of the farm? Do our personal and group goals align with this future? Are our goals in line with transition planning?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Values

Do we have similar values about how a family business should be operated? Do our personal values complement each other's? Will opposing values create long term conflict (or conflict in the longer term) between those managing the farm?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Retiring and Succeeding Generation Initial Thoughts

Are there core issues within our initial thoughts that need to be addressed before a transition plan can be developed? Do we need to conduct further research into one or more areas?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Financial Performance

Are we satisfied that the farm's financial performance will sustain a transition plan?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Management

Will management skills as identified through the Management Assessment Exercise enhance or hinder our ability to develop a transition plan?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Personalities/Behaviour Audit

Can the different personalities involved work together effectively to develop and implement a transition plan?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

Historical Business Development

Are there events in our farm’s history that need to be clarified? Are there lingering effects from historical events/decisions that need to be addressed?

Comments:

Corrective Action (if any):

Does the corrective action require us to put transition planning on hold? (Yes/No)

From **Topic 13, Chapter 5** (Phase 2: Readiness Assessment)

Statement of Intent to Proceed

STATEMENT OF INTENT TO PROCEED

_____ of _____ intend to proceed with developing a transition plan for the purpose of transferring farm management and ownership to _____.

_____ intend to have the plan completed and ready for implementation by _____.

Name

Signature

Date:

From **Topic 13, Chapter 5** (Phase 2: Readiness Assessment)
Statement of Intent to Defer

STATEMENT OF INTENT TO DEFER

Because _____, the members of
_____ are unable to proceed with developing a
transition plan for the purpose of transferring farm management and ownership to
_____. _____ intend(s) to re-
address this issue on _____.

Name

Signature

Date:

From **Topic 14 Part A, Chapter 6** (Phase 3: Plan Development)
 Challenges in Transition Planning

Challenges	Applicable/Not Applicable	Reviewed?	Resolved?	Follow-up Required?	Follow-up by Whom? When?
1. Lack of Awareness					
2. Difficulty Getting Started					
3. Planning Drift (Procrastination)					
4. Avoidance/Denial					
5. Not Wanting/Not Willing to Commit					
6. Lack of Accountability					
7. Selfishness vs. Selflessness					
8. Estate Plan Gaps					
9. Conflicting Goals, Priorities and Values					
10. Fears					
11. Fair is Not the Same as Equal					
12. On-Farm Versus Non-Farm Successors					
13. Entitlement					
14. Successor Training and Skill Development Requirements					
15. The Challenge of Compensation					
16. Communication Gaps/Problems					
17 Management Conflict					
18. Tax Planning Challenges					
19. Risk					
20. Process Facilitation					

From **Topic 14 Part B, Chapter 6** (Phase 3: Plan Development)
Guiding Principles

Major Concerns

Name: Date:		Very Concerned			Somewhat Concerned			Not at all Concerned			
		10	9	8	7	6	5	4	3	2	1
1	Disagreement about how to run the business among group members working in the business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Long term survival of the farm business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Disagreement among owners and partners about the real purpose (priorities) of the business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Fair treatment of successors in ownership transfer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	Insufficient financial reinvestment in the operation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Lack of a future for family farm businesses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	Unwillingness of current owner-manager(s) to retire	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	Inability of current owner-manager(s) to retire	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9	Negative influence of in-laws on family harmony and business decision-making	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	Inability to pay estate taxes in the future	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11	Lack of competence of successors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12	Lack of commitments of successors	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13	Poor communication within transition planning group	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14	Negative influence of off-farm owners	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15	Negative effects of day-to-day stress caused by the business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

From **Topic 14 Part B, Chapter 6** (Phase 3: Plan Development) - CONTINUED
 Planning Objectives

Name: Date:		Very Concerned			Somewhat Concerned			Not at all Concerned			
		10	9	8	7	6	5	4	3	2	1
1	Improve the effectiveness of our management team	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Improve communication between transition planning group members	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Use current advisors better	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Minimize estate taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	Transfer ownership fairly to the next generation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Develop a specific retirement plan for the retiring generation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	Develop a way of funding the retirement of current owners	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	Develop an agreement among all owners on investment, risk, and return standards	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9	Define clear operating responsibilities for each manager	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	Define a fair method of compensating family members employed in the business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11	Increase personal cash flow to owners	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12	Grow the business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13	Diversify the business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
14	Define or revise an effective buy/sell agreement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
15	Define how the next generation will enter the business	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

From **Topic 14 Part B, Chapter 6** (Phase 3: Plan Development) - CONTINUED
 Strategic Objectives

Name:										
Date:										
	← Important			Undecided			→ Important			
	4	3	2	1	0	1	2	3	4	
Own operation assets when possible	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Lease/rent operating assets when possible
Focus on current crop/livestock mix	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Diversify beyond current crop/livestock mix
Maintain marketing independence	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Produce under contract
Focus on agriculture	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Diversify outside of agriculture
Position for long-term family ownership	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Position business for sale to outsiders
All owners share in all ventures equally	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Different owners own ventures differently
Employ owned land for farming purposes only	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Employ owned land for highest and best use

Conflict Management

Sources of Conflict

Authority, Control, Power:

The struggle for power can affect every situation and decision related to the farm operation. Farmers generally prize the value of independence and freedom to operate their own enterprise. However, authority, control and power between retiring and succeeding generations are complicated in farm businesses, especially if the transition occurs between parents and their adult children.

Division of Income:

The question of when the younger generation gets a greater share of the farm income is a chronic point of disagreement.

Obligations and Indebtedness:

Who bears the brunt of risks in the business? Does someone feel taken advantage of? Is there someone who is not carrying their weight, yet getting paid as if they are (or vice versa)?

In-law relations and conflict of loyalties:

Many times in-laws are never quite included in the family circle. Family loyalties get tangled when conflict occurs.

Differences in risk taking:

Each person has their own set of values and goals that affect how and when they spend money and how they make decisions. If differences are not tolerated, conflict can arise.

Decision making:

The need for crucial and frequent decisions to be made, often with little time to gather all the facts, contributes to conflicts. Who makes most of the decisions? Who is blamed if decisions turn out to be poor ones?

Legal transfer of the property:

The transfer of property from one generation to the next can create tension and conflict. Some planning group members may believe that legal agreements are all that is needed to solve this problem. Other members may feel that more communication, mutual understanding and tolerance are needed to fully deal with the issues.

Conflict Management Styles

The ability to cope successfully with conflict is an important skill for all family members to develop. There is no perfect way to handle all conflicts, but several methods or styles can work well. Which one is appropriate or successful will depend on the situation and the people involved.

The Thomas-Kilmann Conflict Mode Instrument describes the five most common ways that people handle conflict, as follows:

Avoidance:

You do not pursue your own concerns or anyone else's concerns. This usually results in a lose-lose situation.

Accommodation:

You have a high concern for others' needs and neglect your own concerns in order to satisfy their needs. Here you lose; the other person wins. This is a lose-win solution.

Competition:

You are concerned only with your own interests and pursue them at the expense of others. Here you win but the other person loses. This is a win-lose situation.

Compromise:

You are equally concerned with your needs and others' needs. Compromise never fully takes care of anyone's needs. This is a no win-no lose solution.

Collaboration:

You have high concern for both your needs and others' needs. Using this style, you work with the other person or people to find a solution which is acceptable to all. This is a win-win solution.

No single style is necessarily better than the others given particular circumstances. However, collaboration and, to a lesser extent, compromise are considered to be the most constructive methods of conflict resolution.

Strategies to Find Win-Win Solutions

Specific strategies can be used to help arrive at win-win solutions to conflicts. Try the following:

Establish shared goals:

To create a climate of collaboration, people need to focus on what they share in common. Two brothers arguing over specific production methods could start by agreeing that they both share the goal of increasing productivity.

Separate the people from the problem:

Focus on the problem to be solved, not on the personality traits of the people involved. Telling someone an idea is not good is less damaging than telling them they are not good.

Focus on interests, not positions:

Interests are a person's needs, wants, fears and concerns. Interests generate positions, which are demands made by a negotiator. For example, a dispute may arise between two brothers about which one should work on the weekends. They each take the position that they want the weekend off. The underlying interest of one brother is that he wants the weekend off so he can watch his children play in hockey tournaments. For the other brother, the interest is that he has a new girlfriend who works out of town and the only time he can see her is on the weekend. Discussing interests rather than positions allows room for the other person to understand why you feel strongly about your needs, wants, fears and concerns.

Invent options for mutual gains:

Be as creative as possible. Once everyone understands each other's interests, try brainstorming to come up with as many solutions as possible.

Use objective criteria:

If the people in a dispute can shift their thinking from what they want to what makes the most sense, the merits of each possible solution will be easier to judge.

Define success in terms of gains rather than losses:

If you ask for a 10 per cent raise but get only six per cent, you could look at this as a six per cent increase or a 40 per cent shortfall. Your satisfaction with the outcome of any dispute will be influenced by the standards you use to judge it. The question to ask is whether the settlement constitutes an improvement over the starting point.

Always strive to achieve win-win solutions. Even when a win-win solution doesn't seem to exist, one can usually be found if participants have the determination to do so.

From **Topic 14 Part D, Chapter 6** (Phase 3: Plan Development)

Resource Team Identification

Resource Area	Person / Firm	Contact Information	Comments
Accounting			
Tax			
Legal			
Agronomy			
Marketing			
Investment			
Insurance			
Farm Management			
Human Resources			

From **Topic 14 Part E, Chapter 6** (Phase 3: Plan Development)

Advisor Information Report

Advisors

Area of Expertise / Profession	Name	Firm	Contact Information

Family Members Involved

Name	Relationship	Direct / Indirect Involvement	Contact Information

From **Topic 15 Part A, Chapter 6** (Phase 3: Plan Development)

Vision

What's important to you? Where are you going? What do you do?

From **Topic 15 Part B, Chapter 6** (Phase 3: Plan Development)
 Situational Analysis

Strengths	Strengths Prioritized	Weaknesses	Weaknesses Prioritized
Opportunities	Opportunities Prioritized	Threats	Threats Prioritized

From **Topic 15 Part C, Chapter 6** (Phase 3: Plan Development)
 Risk Assessment
 Operational Business Risk

Risk Category	Description	Probability	Impact	Score
Technology	Ability/cost to adapt, obsolescence, rate of change, role of science and biotechnology			
	Your Farm			
Human	Four Ds (death, divorce, disability, departure), management and ownership capacity, transition, performance and training			
	Your Farm			
Legal / Regulatory	Regulation compliance and changes, third party liability, environmental damage/compliance, licensing and reporting			
	Your Farm			
Production	Weather, pests/disease, theft/fire, operational practices			
	Your Farm			
Relationships	Landlords, lenders, customers, suppliers, contracts			
	Your Farm			
Distribution Systems and Channels	Transportation, cost, dependence on distributors			
	Your Farm			

From **Topic 15 Part C, Chapter 6** (Phase 3: Plan Development) - CONTINUED

Strategic Business Risk

Risk Category	Description	Probability	Impact	Score
Strategic Positioning and Flexibility	Industry consolidation, resource allocation and planning, organizational adaptation			
	Your Farm			
Marketing, Reputation and Image	Company image and brand, product reliability			
	Your Farm			
Competitive Conditions	Market share, pricing wars, commodity based, price-taker, world markets			
	Your Farm			
Governmental Trade and Farm Policy	Provincial government programs, international policies (COOL, US farm bill etc.), supply managed			
	Your Farm			
TOTAL				

From **Topic 15 Part C, Chapter 6** (Phase 3: Plan Development) - CONTINUED

Financial Risk

Risk Category	Description	Probability	Impact	Score
Financing and Financial Structure	Debt servicing capacity, leverage, liquidity, profitability			
	Your Farm			
Interest rate	Foreign exchange, cash savings, interest rates on debt, investment assets			
	Your Farm			
TOTAL				

Market Risk

Risk Category	Description	Probability	Impact	Score
Input and output product prices	Price level volatility, input product availability, output premiums/discounts			
	Your Farm			
Contract terms, delivery and payment	Delivery delay, buyer default, supply chain obstacles and change			
	Your Farm			
Market outlets and access	Number of markets, ease of access to markets, qualified supplier status, cost of market entry			
	Your Farm			
TOTAL				

From **Topic 15 Part D, Chapter 6** (Phase 3: Plan Development)

Critical Issues

Business Structure

Operations

Environmental Responsibility

Human Resources

Marketing

Financial Management

From **Topic 15 Part E, Chapter 6** (Phase 3: Plan Development)

Critical Issues Action Plans

Critical Issue:				
Person with Primary Responsibility:				
Statement that Defines the Critical Issue (optional):				
Action Items	How	Specifics		
		Resources	When	By Whom

Financial Targets

Liquidity - The ability of a business to meet financial obligations as they come due in the ordinary course of business. Liquidity relates to cash flow and short-term risk.

Ratio	Formula	Explanation	Good	Average	Poor	Target
Working Capital Percentage of Total Cash Expenses	$(\text{Current assets} - \text{Current liabilities}) / \text{Cash Operating Expenses}$	If current liabilities are retired as they come due what current assets will be left? (percentage of annual expense)	> 50%	20 – 30%	< 10 %	

Solvency – The financial ratios that measure the amount of business debt relative to the amount of owner’s capital invested in the business. Solvency relates to longer-term risk and how the business is financed.

Ratio	Formula	Explanation	Good	Average	Poor	Target
Leverage Ratio* or Debt to Equity Ratio	$\text{Total Liabilities} / \text{Total Equity}$	For every dollar in equity, how many dollars of debt are there?	< 4 : 1	0.65 : 1	> 1 : 1	
Debt Servicing	$(\text{Net Income} + \text{Amortization} + \text{Interest} - \text{Family Wages}^{**}) / (\text{Annual Principal and Interest Paid})$	Can the farm come up with enough income to pay the debt requirements?	> 2 : 1	1.5 : 1	< 1.1: 1	

* Industry standards based on assets at market value.

** If not already included in expenses (ex: non-corporate farms).

Profitability – The extent to which a business is able to generate profit (income) from the use of business assets. Profitability rates investment decisions based on their ability to generate net income.

Ratio	Formula	Explanation	Good	Average	Poor	Target
Return on Assets*	Net Income plus Interest / Total Assets	What return is the farm generating as a percentage of capital assets?	> 4%	2%	< 0%	

* Industry standards based on assets at market value.

Financial Efficiency – The extent to which a business is able to use its resources (inputs) efficiently. Financial efficiency rates the annual operating cost decisions on their ability to generate gross revenue.

Ratio	Formula	Explanation	Good	Average	Poor	Target
Gross Margin	Gross Margin / Gross Revenue	Is the farm generating acceptable margin as a percentage of revenue?	> 65%	55%	< 50%	
Net Profit Margin	Net Profit Margin / Gross Revenue	Is the farm generating acceptable margin as a percentage of revenue?	> 20%	10%	<5%	

From **Topic 16, Chapter 6** (Phase 3: Plan Development)
Transition Planning Meeting Agenda

Strategic Direction Review Meeting:

Date:

Time:

In attendance:

1. Administration:

- a. Select one individual to act as the Chair of the meeting. Review their function and responsibilities (for help, review the job functions outlined in Chapter 3).
- b. Select one individual to act as the Notes Recorder of this meeting.
- c. Review decorum (optional)

2. Review previous meeting notes:

3. Purpose of the meeting:

- a. Review overall progress in transition plan since last meeting.
 - i. Make a plan to catch up in areas that are lagging behind (if needed).
- b. Review the farm's progress specifically relating to the strategic direction phase of the transition planning process.
- c. Address other concerns as needed.

4. Review the current situation:

- a. for each participant individually;
- b. for the group/family; and
- c. for the farm.
- d. General discussion and questions.

5. Discuss plan development specifics:

- a. Discuss whether participants are on the same page when it comes to values, strategies, and risk tolerance.
- b. Discuss whether the action plan will get your transition planning group where you want and need to go.
- c. Make a plan to address disagreements (if needed).
- d. Conduct a general discussion and answer questions.

6. Discuss concerns and issues:

- a. General discussion and questions

7. Create timelines:

- a. Assign responsibilities with due dates.
- b. Set a date and time for the next meeting time.

8. Adjourn

From **Topic 17 Part A, Chapter 7** (Phase 3: Plan Development)
 Successor Assessment

Leadership	Score
Creates and effectively communicates a clear vision.	
Recruits a team to achieve business and operational goals.	
Treats partners, employees, third party vendors and all other stakeholders as important.	
Recognizes the importance of complementary characteristics and builds a team with diverse strengths, skills and abilities.	
Creates a positive, constructive, results-oriented working environment.	
Recognizes potential areas for conflict and proactively mitigates the negative impact.	
Knows that a leader strives to create other leaders and creates opportunities for others to excel.	
Displays good business customs and sound ethics.	
Delegates with clear responsibility and accountability.	
Accepts criticism and uses failure as a learning opportunity.	
TOTAL	

Management	Score
Selects team members based on their respective skills and abilities.	
Performs all tasks, duties and responsibilities with an owner's determination.	
Is committed to continuing education, additional training and self-study.	
Demonstrates excellent financial management.	
Uses technology to increase efficiency, improve effectiveness and cut expenses.	
Demonstrates clarity, patience and commitment to employee training, operational safety and hazard avoidance.	
Delegates effectively, encouraging others to take on and accept responsibility.	
Effectively prioritizes and demonstrates good time management.	
Understands personal relationships and operational politics using good communication.	
Is a good planner, using thorough analysis, goal setting, budgeting and record keeping.	
TOTAL	

Ownership Options

Ownership

1. Are you looking for an interim arrangement at this stage, or are you considering a full sale transfer?
 - a. Are you prepared for a complete change from farmer to creditor or, if a bank / financing company is involved, to a passive investor?
 - b. Will one or more successors want to become involved later?
 - c. How important is it that you retain ownership of some of the assets?
 - d. If there is an interim arrangement, how concerned are you that the farming successor might not be satisfied with how the overall plan will ultimately unfold?
 - e. Could you work with your successor on a partnership basis?
 - i. Do you communicate well together?
 - ii. Could you treat your successor as a business partner?
2. Are you concerned about the stability of your farming successor's marriage?
 - a. This can be a significant issue because if there is a marriage breakdown, an estranged in-law could acquire a larger share of your estate than your own non-farm successors.
 - i. Does your successor's marriage seem strong?
 - ii. Would you prefer not to transfer significant assets at this time?

Control

1. Is it important that you control the management of the farm for a period of time?
 - a. Is it important that you have some degree of control while you still have a significant investment in the farm?
 - b. Is it sufficient that you have some influence over major decisions such as the future purchase and sale of assets?
 - c. Do you want to continue managing the farm?

Security

1. How much importance do you place on financial security?
 - a. Is the retiring generation prepared to act as a lender, carrying the successors' loan on a sale of assets or shares? Does the retiring generation expect successors to buy them out in whole or in part? If the retiring generation does act as banker, will they want interest in the first few years of the agreement?
 - b. Is the retiring generation prepared to guarantee any bank indebtedness that successors might take on to buy out the retiring generation?
 - c. Does the retiring generation want their name to remain on ownership titles until the successor completes all payments for the farm business?

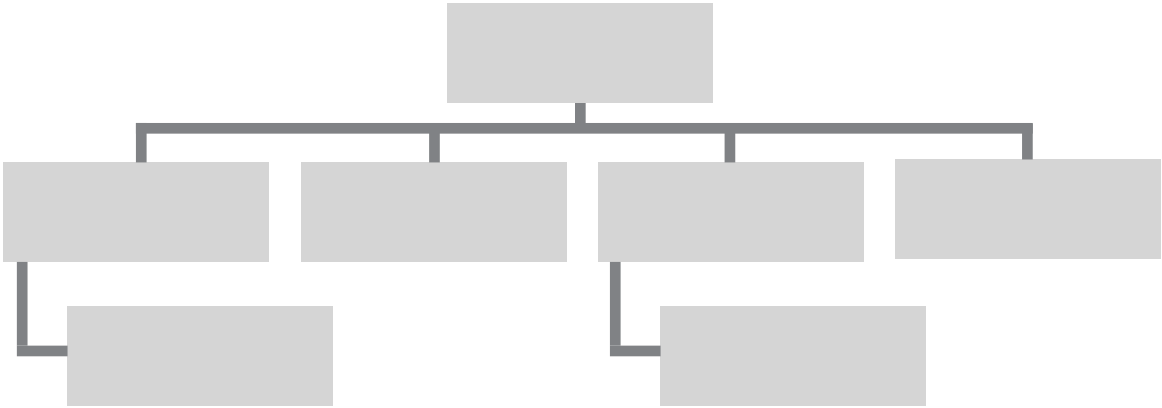
On-Farm Living

1. Does the retiring generation want to continue living on the farm or move away?
2. Does the succeeding generation want/need to move onto the farm?
3. If an additional home is needed, will the retiring generation or the succeeding generation move into the new house?
4. Can the existing farm house be sub-divided from the farm?
5. What is the cost of housing in town, if necessary?

Equal vs. Equitable Treatment of Successors

1. What assets does the retiring generation plan to ultimately pass to non-farm successors?
 - a. Are there non-farm assets that they might inherit?
 - b. Are there any insurance policies that they might inherit?
2. Will the retiring generation be able to build up non-farming assets from the payments that the farming successor makes (that could at some point be passed on to your non-farm successors)?
3. Is it likely that the non-farming successors will inherit a receivable from farming successors or hold an interest in the farm?
 - a. If so, how important is it that the farm successor's ability to run the farm not be put at risk?

From **Topic 20 Part A, Chapter 7** (Phase 3: Plan Development)
Management Structure



From **Topic 20 Part C, Chapter 7** (Phase 3: Plan Development)

Job Description

Position Title:

Reports To:

Date:

Job Purpose/Objectives:

Percentage of Time	Key Tasks
	Activity 1:
	Activity 2:

Education and Training:

Experience and Skill Requirements:

Supervision:

Physical Requirements:

Salary Range:

Work hours:

Overtime:

Benefits:

Comments:

Compensation

From **Topic 20 Part D, Chapter 7** (Phase 3: Plan Development)
Compensation Philosophy

For Owners

For Family

For Family Employees

For Non-Family Employees

From **Topic 20 Part E, Chapter 7** (Phase 3: Plan Development)

Roles, Responsibilities and Authority

Role or Responsibility	Currently Responsible	Transition Authority to	Timeline	Action

From **Topic 20 Part F, Chapter 7** (Phase 3: Plan Development)

Training and Skill Development

Activity 1:		
Hosting Organization:		
Location (if applicable):		
Budget:		
Who Attends	Dates	Follow-up

From **Topic 21 Part A, Chapter 7** (Phase 3: Plan Development)
Unanimous Shareholder Agreements

List of Agreement Considerations

Terms of Agreement: Because circumstances change, consideration should be given to the term of the agreement. Consider:

- Should there be a set termination date (ie:10 years)?
- Should the agreement be terminated upon the death of a shareholder or should it be perpetual?

A. Provisions for Control

- How many members will there be on the board of directors?
- Will each shareholder be entitled to a nominee on the board?
- What will constitute quorum for a meeting of the board?
- Who will be the officers of the corporation?
- Will the directors and officers be paid by the corporation? If so, how is their remuneration determined?
- Which officers will be authorized to sign cheques and other banking documents on behalf of the corporation?
- Will two signatures be required for cheques over a certain limit?
- Who can bind the corporation in regard to other legal/financial matters?
- How will auditors, accountants and lawyers be chosen?
- How will meetings be called (ex: mail, other, how many days in advance)?
- Who will be notified of formal and informal meetings?
- Who will vote at the meetings?
- Will votes be decided by simple majority or special majority?
- What circumstances will require a special majority?

B. Operation and Finance of the Corporation

- If funds are required by the corporation, how are those funds to be obtained?
- Will these funds be obtained by the corporation borrowing from a financial institution?
- If the corporation is otherwise unable to obtain these funds, will the shareholders be required to provide guarantees?
- If guarantees are provided, will they be limited guarantees and will guarantor liability be joint and several?
- If the corporation is unable to obtain the required funds with the assistance of shareholder guarantees, will shareholders be required to provide loans to the corporation? Will shareholder loans be secured?
- If shareholder loans are secured, under what conditions can a shareholder enforce his right to payment?
- How will profits be distributed (salaries, bonuses, dividends, repayment of shareholder advances)?
- Will shareholders be allowed to work for the corporation?
- What are the powers of the shareholders regarding terminating another shareholder who is an employee of the corporation (ex: for causes such as failure to perform duties)?

C. Restriction on the Transfer of Shares

- Will there be a restriction on the transfer of shares?
- If so, will this restrict the ability of a shareholder to pledge shares to a bank or transfer shares to a family member or related corporation?
- If the shareholders are corporations, should the shareholders be restricted from transferring shares of the shareholder?

D. Death of a Shareholder

- In the event that a shareholder dies, should the estate be bound to sell the deceased's shares to the other shareholders, to the corporation for cancellation, or permitted to keep the shares?
- If an estate is required to sell and the corporation or remaining shareholders are required to purchase the shares, should there be insurance policies on the lives of the shareholders to ensure that the other shareholders of the corporation can afford to purchase the shares in the event of death?
- If insurance policies are required, should the corporation pay the insurance premiums?
- Upon death, how should the purchase price for the shares be paid (ex: a percentage at the time of the sale and the balance paid in equal consecutive monthly instalments over a period of years with or without interest)?

E. Events Requiring a Mandatory Sale by the Shareholder

- Which events should result in a shareholder being required to sell all of the his or her shares of the corporation:
- The death of the shareholder?
- The disability of a shareholder, which results in the shareholder not being able to devote the time and attention required by the corporation?
- The shareholder reaching a certain age (ex: 65 years)?
- A default by the shareholder under the shareholder agreement or any related agreement?
- The insolvency of a shareholder?

F. Disability of a Shareholder

- If a shareholder is employed by the corporation, should the shareholder be entitled to continue receiving compensation in the event of a disability?
 - If so, for how long?
- How should disability be defined?
- Should a shareholder be required or have the option to sell shares if a disability continues for an extended period of time?

G. Right of First Refusal

- If a shareholder is entitled to sell shares of the corporation to a third party, should that shareholder be required to first offer the shares to the other shareholders on the same terms and conditions as the bona fide third party offer?
- If the other shareholders do not wish to purchase the first shareholder's shares, should they be entitled to require the third party purchase their shares as well (piggy back rights)?
- If the other shareholders do not wish to purchase the first shareholder's shares, should they be forced to sell their shares to the third party if the third party wishes to purchase all of the corporation's outstanding shares (drag along)?

H. Buy/Sell

- This provision allows a shareholder to provide notice to all other shareholders advising them of a set price for purchase of all the other shareholder's shares or for sale of all owned shares to them. Once a shareholder triggers the buy/sell it is then up to the other shareholders to determine if they wish to be buyers or sellers.

I. Call:

- Should a shareholder be entitled to require one or more other shareholders to sell their shares in the corporation upon notice?
- If so, should this right be exercisable immediately or only after some period of delay? How will the price be determined?
- How will the price be paid?

J. Put:

- Should a shareholder be required to purchase another shareholder's shares at the option of that other shareholder?
- Should this right be exercisable immediately or only after some period of delay?
- How will the price be determined?
- How will the price be paid?

K. Pre-emptive Rights

- If the corporation wishes to raise additional funds by issuing and selling new shares from treasury, should the existing shareholders have the first opportunity to purchase the new shares?
- If any shareholders do not wish to purchase these new shares, should the remaining shareholders be entitled to purchase the additional shares, which may result in their holding a disproportionate number of shares?

L. Dispute Resolution

- Should the shareholder agreement contain a clause that requires arbitration in the event that a controversy or claim arises which cannot be settled among the shareholders?
- Should shareholders be required to attend mediation prior to starting an action if a claim cannot be settled otherwise?

M. Non-Competition/Confidentiality/Non-Solicitation

- Will the shareholders be required to promise that while they are shareholders they will:
 - Not compete with the corporation in any manner?
 - Not solicit any of the corporation's clients?
 - Promise to keep all confidential information they receive confidential?
- Should the terms of this clause be extended so that it applies even when the individual is no longer a shareholder?
 - If so, how long should the non-competition/non-solicitation clause continue and what is the geographic scope of the covenant?

N. Valuation of Shares

- Will the shares of the corporation be valued for sale purposes:
 - By a predetermined formula?
 - By the shareholders themselves?
 - By endorsing a schedule to the agreement?
 - By a third-party valuator/auditor?
- How often will the shares be valued?

O. Employment

- If one or more of the shareholders is employed by the corporation, should typical employment provisions be included in the shareholder agreement to protect the shareholder, the corporation, or both?
- Should salary levels be agreed upon for some pre-determined period of time?
- Should notice of termination of employment periods be agreed upon?
- Should employment automatically terminate if a shareholder sells his shares?

From **Topic 22, Chapter 7** (Phase 3: Plan Development)
Deal Breaker Issues

Challenges

Are there transition challenges outstanding that have not been dealt with?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the Agreements and Implementation topics?
(Yes/No)

Guiding Principles

Are there areas of major disagreement within the farm's guiding principles?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the Agreements and Implementation topics?
(Yes/No)

Conflict

Is there unresolved conflict (visible or hidden) between stakeholders? Will this conflict hamper the management team’s ability to manage post implementation?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the Agreements and Implementation topics? (Yes/No)

Strategic Direction and Risk Management

Can the risks identified be mitigated satisfactorily so they don’t endanger the farm’s future? Are all stakeholders committed to managing according to the agreed upon action plans and financial targets?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the Agreements and Implementation topics? (Yes/No)

Transition Options

Are all stakeholders satisfied with the proposed business structure and future management structure? Has there been any significant negative feedback from professionals that cannot be incorporated into the plan?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the Agreements and Implementation topics? (Yes/No)

Human Resources

Are all stakeholders satisfied with their roles, responsibility and authority during transition? Is the training/skill set program content and timeline attainable? Are all stakeholders satisfied with the compensation policy and performance review process?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the Agreements and Implementation topics? (Yes/No)

Estate Plan Elements

Can all stakeholders accept the estate plan? Is there conflict/feeling of resentment associated with the estate plan that needs to be addressed?

Comments:

Corrective Action (if any):

With corrective action can the plan proceed to the Agreements and Implementation topics? (Yes/No)

Are we ready to proceed to Implementation? (YES/NO)

From **Topic 23, Chapter 8** (Phase 3: Plan Development)
Transition Plan Review Meeting Agenda

Date:

Time:

In Attendance:

1. Administration:

- a. Select one individual to act as the Chair of the meeting. Review their function and responsibilities (for help, review the job functions outlined in Chapter 3).
- b. Select one individual to act as the Notes Recorder of this meeting.
- c. Review decorum (optional)

2. Review previous meeting notes.

3. Discuss purpose of the meeting:

- a. Review overall progress in the transition plan since last meeting.
 - i. Make a plan to catch up in areas that are lagging behind (if needed).
- b. Address other concerns as needed.

4. Review the current situation:

- a. for each participant individually;
- b. for the group/family; and
- c. for the farm.
- d. General discussion and questions.

5. Discuss plan development specifics:

- a. Are all participants on the same page?
 - i. Does everyone acknowledge that plans and documents currently under development will be considered final and signed following the final review (Topic 28)?
 - ii. Make a plan to address disagreements (if needed).
- b. Conduct general discussion and answer questions.

6. Discuss concerns and issues:

- a. General discussion and questions

7. Timelines:

- a. Assign responsibilities with due dates.
- b. Set a date and time for the next meeting.

8. Adjourn

From **Topic 24 and 25, Chapter 8** (Phase 3: Plan Development)

How to Choose and Work with Advisors

A very important decision your group will face during the transition planning process is who to select as advisors.

An advisor's role is:

- to be an information resource to the farm management team; and
- to guide the team in their decision making process (not simply to tell them what to do).

The most important questions to consider when selecting an advisor are:

- How do I choose the right advisor?
- How can I get the most out of the advisor-client relationship?
- How should the relationship be structured?

What to Look for when Selecting an Advisor

Qualifications

Consider the career and educational background of a potential advisor.

- Do they have a farm background?
 - Is it important that they do?
- What education and experience do they bring to the table?
- What kinds of professional development have they undertaken? (A sign of a high quality advisor is that he or she is committed to investing in continuous learning and professional improvement.)
- Do they maintain a professional affiliation with any industry groups?
- Since there is limited regulation on who can act as a consultant or advisor, a good indication of a potential advisor's professionalism and training is whether they have a designation or other credentials from a regulating organization.

Communication and Conflict Resolution Skills

Communication is a critically important part of the transition planning process. An advisor will need to write and respond to emails, prepare documents and meeting agendas, and lead discussions at the meetings. A key factor in your relationship with your advisor will be how well he or she can effectively communicate.

Since there is a potential for conflict throughout transition planning, it is important that an advisor be experienced and skilled in conflict resolution. Such skills may be required to enforce decorum in meetings and bring differences of opinion to middle ground and resolution.

Steps to Follow When Selecting an Advisor

There are many factors to consider when selecting a professional advisor. It is best to make your selection based on their skills, knowledge and experience, and how specific their skillset is to your situation. Try not to be sold simply on experience, intelligence or determination.

1. Develop a detailed description of the objectives and requirements of the project.
2. Identify the scope of the work.
 - a. Include key concerns, timelines and budget limitations.
3. Research rosters or databases and take note of advisors that match your needs.
 - a. Contact each potential advisor, asking for a CV (professional resume) and list of past client references.
4. Rank each respondent.
5. Shortlist and interview.
 - a. Look for advisors who recognize your needs and demonstrate sound knowledge that will add value to your planning process.
 - b. Do research on the final candidates, via:
 - i. word of mouth / opinions of others;
 - ii. CV (resume) consideration;
 - iii. reference checks. Specifically determine:
 - iv. Whether the work conducted for the reference was similar to the work you want done?
 - v. Were the references satisfied with the work? If not, ask why?
 1. Be aware that a negative response may be due to the reference having unrealistic expectations of the advisor, or another issue that is not the advisor's fault.
6. Select the advisor:
 - a. Develop a written contract.
 - b. Ensure both parties sign the contract.
7. Consider errors and omissions insurance
8. Consider third party liability insurance

How to Use an Advisor

The relationship you build with your advisors will go a long way towards determining the success of your farm's transition plan. While each relationship will differ depending on the situation and people involved, there are some universal guidelines and tips that can help make things go smoothly.

1. Formalize the client-advisor relationship.
 - Knowing what is required, what the deliverables are, and what expectations you have of the advisor will improve the relationship.
 - Write an engagement letter, or have your advisor write one, that lays out the expectations from both sides and provides a plan if changes threaten to derail the process. The engagement letter should include:
 - project scope, objectives and understanding;
 - services;
 - delivery schedule;
 - limitations and liability;
 - advisor responsibilities;
 - client responsibilities;
 - project assumptions; and
 - fees, expenses and payment terms.
2. Formalize the fee structure. Before agreeing to anything fee-related, consider:

- How will fees be charged?
 - by the hourly contract
 - contingency based
 - retainer based
 - negotiable
 - Note: You should feel comfortable asking your advisor for a breakdown of the time billed to you. Final payment holdback can be used to make sure work is completed as per the engagement letter.
3. Communicate, communicate, communicate
- Disputes are often caused by a breakdown in communication.
 - It is important to bring an issue to the table as soon as you detect a problem.
 - Refer back to the contract (engagement letter) when conflict occurs.
 - Professional conduct and insurance can sometimes play a role in solving disputes.
 - There is a mutual responsibility for both parties to ensure information flows to each other.
4. Determine Timelines and Deliverables
- Staying on track is important! An effective way to prevent conflict is for both the transition planning group and the advisor to work hard to meet timelines and agreed upon deliverables.

From **Topic 28, Chapter 8** (Phase 3: Plan Development)
Transition Plan Final Meeting Agenda

Date:

Time:

In attendance:

- 1. Administration:**
 - a. Select one individual to act as the Chair of the meeting. Review their function and responsibilities (for help, review the job functions outlined in Chapter 3).
 - b. Select one individual to act as the Notes Recorder of this meeting.
 - c. Review decorum (optional)

- 2. Review previous meeting notes.**

- 3. Discuss purpose of the meeting:**
 - a. Share the finalized transition plan.

- 4. Review the current situation:**
 - a. For each participant individually;
 - b. For the group/family; and
 - c. For the farm.
 - d. General discussion and questions.

- 5. Discuss plan review specifics:**
 - a. Review the lessons learned in the transition planning process.
 - b. Discuss plan implementation.
 - c. Conduct a general discussion and answer questions.

- 6. Discuss concerns and issues:**
 - a. General discussion and questions

- 7. Timelines:**
 - a. Assign responsibilities with due dates.
 - b. Set a date and time for the next meeting.

- 8. Adjourn**

Appendix – Resource References and Contact Information

1. The Executive Program for Agricultural Producers (TEPAP)
www.tepap.tamu.edu
2. Canadian Total Excellence in Agricultural Training (CTEAM)
www.agrifoodtraining.com
3. Farm Credit Canada
www.fcc-fac.ca
4. Farm Management Canada
www.fmc-gac.com
5. Government of Canada
www.agritalent.ca
6. Alberta Agriculture and Forestry
www.agric.gov.ab.ca
7. Manitoba Agriculture
www.manitoba.ca/agriculture
8. Saskatchewan Ministry of Agriculture
www.agriculture.gov.sk.ca
9. Online DISC Profile
www.onlinediscprofile.com
10. Centrec Consulting Group
www.centrec.com
11. Family Business Management Services IIC
www.familybusinessmgt.com
12. Legacy by Design, IIC
www.legacy-by-design.com
13. Backswath Management Inc.
www.backswath.com

Growing Forward 2 

A federal-provincial-territorial initiative

