

Kentucky Farm Business Management Program

Family Living
2005 Sources and Uses Summary

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A Special Note to Our Readers

The data for this study are drawn from the detailed financial records of producers cooperating with the Kentucky Farm Business Management Program. The data are not drawn from a random sample of farms in the state. However, these data are the most accurate and detailed farm financial data which are available to researchers and educators. Every attempt has been made to select a set of farms for these research studies which are “typical” operations and have complete financial information available for analysis. These data are carefully cross-checked by our farm management specialists before inclusion in this analysis. It should be noted that farms included in this study are representative of commercial farms producing major commodities and livestock, but not of all farms in Kentucky.

The amount spent on family living is often a disregarded cost or thought to be of no consequence to the farming operation. However, depending on the amount spent, family living costs can be a significant drain on resources from the farming operation. Producers may be concerned with fertilizer cost increases, yet think nothing about giving themselves a raise or paying for the family vacation out of the farm account. The farming operation must not only pay for farming inputs and investments, it must also make enough to pay for the family activities. Many families now have some source of non-farm income, but still require farm earnings to help fund the family living expenditures. How much money is leaving the farm to help fund the family?

This publication references data gathered from Kentucky Farm Business Management Program (KFBM) farmer-members to measure the amount being spent on family living for the average farm in the KFBM program. This data has been sorted by several different categories including: Trends for 2002-2005, Size of Family, Age of Children, Size of Farm, and Age of Operator.

Average Sources and Uses Trend

There are several interesting observations that can be made about family living costs from 2002 to 2005. (See Table 1.) As expected, net farm income fluctuates from year to year due to weather conditions, prices, government payments, etc. However, even though this income stream varies, and may even fall from one year to the next, total living expenses continues to climb each year, rising to \$57,336 in 2005 for an average family of 2.8 people. The majority of this increase is due to an increase in expendables (groceries, utilities, transportation, etc.). Families tend to get accustomed to a given standard of living, and once that standard is established it is much easier to increase than to go back down.

Farm production costs and returns in the Kentucky Farm Business Management program are compared on a per acre basis. Taking the information in Table 1, the average farm spent \$83.70 per acre in 2005, \$72.05 per acre in 2004, \$70.64 in 2003, and \$65.28 per acre in 2003 on family living expenses (total living expenses divided by total tillable operator acres). This is compared to average 2005 crop input costs (fertilizer, seed, chemicals) of \$125.77 per acre and average 2005 power and equipment costs (utilities, repairs, fuel, depreciation) of \$101.95 per acre for the average Kentucky farm.

In 2005 non-farm income accounted for 6.58% of all sources of funds while family living expenditures accounted for 8.96% of all uses of funds. This indicates that the farm either had to experience enough net farm income to fund the family, or there is additional debt (operating money) or asset liquidation to fund family expenses.

Size of Family

The number of children in a family would logically impact the amount spent on family living. However as seen in Table 2, it is not always the case that larger families spend more. In the data represented here, families with 3 to 5 members spent the most on family living. This may be explained by knowing the nature or family beliefs of those families with greater than 3 children. Notice that families with greater than 5 members have much lower non-farm income and much lower life insurance and contribution

expenses than the smaller families. Larger families also paid less in income and social security taxes, which can be partially explained due to the lower non-farm income as well as the larger number of personal exemptions.

There can be some significant differences between family living costs, even when the number of children is similar. Family living expenses are sorted by the high third and low third of expenses for families between 3 and 5 members in size in Table 3. Producers in the high third of family living expenses averaged \$97,786 while the low third averaged \$41,402, more than \$50,000 difference. However, there is also a \$50,000 difference in the amount of non-farm income between the groups. Those that spent more on family living also experienced higher net farm incomes, indicating that there may be more disposable income available to spend on family living.

Age of Children

In an effort to address the impact of the age of children on family living expenses the data was sorted according to the age of the oldest dependent child. Table 4 summarizes this data into three age groups. As might be expected, the older the children the greater the family living expense, this is despite the fact that net farm income remains relatively the same between all three groups. However, non-farm income is higher for the group with older children, indicating that there is a larger source of funds to allocate to the family. Families without dependent children are not included in the data in Table 4.

Size of Farm

Table 5 summarizes data sorted by farm size. Data from this table illustrates the fact that families on larger farms do have larger total farm incomes as well as higher living costs. However, when observed on a per acre basis it is the smaller farms which exhibit higher per acre farm incomes and have higher per acre family living expenses. Net farm income per acre ranges from \$79 for the largest farms to \$184 for the smallest. Per acre living costs range from \$58 for the largest farms to \$265 for the smallest.

This drastic difference in family living cost on a per acre basis can be explained by the fact that it takes a minimum amount to fund a family, and the smaller farms have fewer acres to spread this essentially “fixed” cost across. Smaller farms actually use a higher percentage of total uses of funds on family living than their larger counterparts, Farms with less than 300 acres use 12.25% of total use of funds toward family living, farms with 300-600 acres use 11.9% and farms greater than 600 acres use 7.27%.

Age of Operator

Is the amount spent on family living dependent on the age of the operator? Table 6 compares the family living expense between operators less than 45 years old and those 45 and older. Notice that this does not take into account families with children, this table only compares farms with a family size of 1 to 2. Another important note is that the vast majority of the farms included in this sort of the data are over 45 years of age and that the average age of those over 45 is 66. As one might expect those operations whose operator is over the age of 45 are spending less on family living than the younger farms. It is also interesting that the amount of non-farm income is significantly lower for the younger farms. Despite the higher non-farm income, indicating the possibility of better non-farm

jobs, which would lead to an assumption of insurance availability, the amount spent on medical expenses for older farms is almost four times higher than that for younger farms. Younger farmers are incurring more in interest expense and spending more on machinery and equipment than the older farmers, indicating that they are still building the farm business.

As shown throughout all of the different tables and sorts contained in this report, family living varies greatly from one farm to the next. The important thing is for the individual farmer to know is just how much of the farm earnings are required to support the family. As stated previously, it is much easier to expand family living than to reduce it. Even in years of lower farm income, family living continues to expand, leaving the question of where the money is to come from. Are savings and investments being drawn upon to support family living expense? Are operating notes being expanded because money is needed for family living? Farming operations go in debt to buy equipment and land because the cost can be justified by expanding the productive capacity of the business, however, increasing family living does not have a direct impact on the productive capacity of the farm business. It is important that farmers control family living costs and not let keeping up with the neighbors drain the farm business of everything they have worked so hard to establish.

Table 1. Farm and Family Sources and Uses of Dollars
– Average per Farm in Kentucky, 2002 - 2005

<i>Item</i>	2005	2004	2003	2002
Number of families	121	136	120	130
Age of operator	55	54	53	53
Number in family	2.8	2.8	2.9	2.9
Age of oldest dependent child	17	17	16	16
Total tillable operator acres ¹	685	745	678	692
Value of feed fed	\$32,446	\$29,791	\$34,494	\$25,270
Net farm income	\$64,594	\$70,785	\$76,774	\$28,989
FAMILY LIVING EXPENSE:				
Contributions	\$4,060	\$3,881	\$3,347	\$3,042
Medical	7,346	7,529	6,185	6,358
Life Insurance	1,421	1,772	1,695	1,461
Expendables	40,936	36,950	33,615	32,471
Total Non-Capital.	(53,763)	(50,131)	(44,842)	(43,333)
Capital.	3,573	3,543	3,083	2,844
Total Living Expenses	(\$57,336)	(\$53,674)	(\$47,925)	(\$46,176)
SOURCES OF FUNDS:				
Non-taxable receipts ²	31,556	26,891	24,740	21,684
Net non-farm income	42,068	36,213	31,380	27,289
Money borrowed	190,236	203,804	204,563	172,747
Total farm receipts	<u>375,553</u>	<u>379,183</u>	<u>324,239</u>	<u>284,949</u>
TOTAL SOURCE ALL FUNDS	\$639,413	\$646,091	\$584,921	\$506,669
USES OF FUNDS:				
Farm				
Interest paid	\$16,806	\$15,236	\$15,537	\$16,752
Other farm expenses	271,895	265,496	239,735	205,388
Machinery-bldg. purchases	<u>49,276</u>	<u>59,004</u>	<u>43,025</u>	<u>36,097</u>
Total Farm Expenditures	(\$337,976)	(\$339,736)	(\$298,297)	(\$258,238)
Principal payments	\$177,369	\$187,334	\$182,680	\$157,210
Income & S.S. tax	14,805	13,173	11,109	14,693
Savings & investment ³	51,932	52,166	44,901	30,351
Living expenses:				
Total Non-Capital	\$53,763	\$50,131	\$44,842	\$43,333
Capital	<u>3,573</u>	<u>3,543</u>	<u>3,083</u>	<u>2,844</u>
Total Living Expense	(\$57,336)	(\$53,674)	(\$47,925)	(\$46,176)
TOTAL USE OF FUNDS	\$639,418	\$646,084	\$584,913	\$506,668
Balancing error	5	-7	-8	-1

¹ Total tillable operator acres for 2002-2005.

² Included fund transfers and withdrawals from savings, tax refunds, gifts, inheritances, transfer from other business ent. & misc.

³ Includes transfers to savings, loans to others, real estate purchases, other non-farm capital and net change in bank balance.

**Table 2. Kentucky Farm and Family Sources and Uses of Dollars, 2005
by Number in Family and All Families.**

<i>Item</i>	<i>Number in Family</i>			<i>All Families</i>
	1 - 2	3 - 5	>5	2005
Number of families	66	49	6	121
Age of operator	63	47	41	55
Number in family	1.9	3.7	6.0	2.8
Age of oldest dependent child	20	17	17	17
Total tillable operator acres ¹	520	879	909	685
Value of feed fed	\$17,622	\$48,739	\$62,440	\$32,446
Net farm income	\$41,026	\$88,421	\$129,251	\$64,594
FAMILY LIVING EXPENSE:				
Contributions	\$4,183	\$4,042	\$2,858	\$4,060
Medical	7,595	7,120	6,454	7,346
Life Insurance	1,400	1,586	308	1,421
Expendables	<u>32,515</u>	<u>52,086</u>	<u>42,500</u>	<u>40,936</u>
Total Non-Capital	(45,693)	(64,834)	(52,120)	(53,763)
Capital	<u>2,796</u>	<u>4,915</u>	<u>1,160</u>	<u>3,573</u>
Total Living Expenses	(\$48,489)	(\$69,749)	(\$53,280)	(\$57,336)
SOURCES OF FUNDS:				
Non-taxable receipts ²	\$31,168	\$29,711	\$50,896	\$31,556
Net non-farm income	39,354	48,874	16,345	42,068
Money borrowed	128,197	239,109	473,529	190,236
Total farm receipts	<u>252,043</u>	<u>514,580</u>	<u>598,778</u>	<u>375,553</u>
TOTAL SOURCE ALL FUNDS	\$450,762	\$832,273	\$1,139,547	\$639,413
USES OF FUNDS:				
Farm				
Interest paid	\$12,706	\$21,669	\$22,185	\$16,806
Other farm expenses	171,729	386,204	440,200	271,895
Machinery-bldg. purchases	<u>35,005</u>	<u>62,769</u>	<u>96,054</u>	<u>49,276</u>
Total Farm Expenditures	(\$219,440)	(\$470,642)	(\$558,439)	(\$337,976)
Principal payments	\$118,625	\$225,215	\$432,816	\$177,369
Income & S.S. tax	13,949	16,929	6,872	14,805
Savings & investment ³	50,260	49,750	88,139	51,932
Living expenses:				
Total Non-Capital	\$45,693	\$64,834	\$52,120	\$53,763
Capital	<u>2,796</u>	<u>4,915</u>	<u>1,160</u>	<u>3,573</u>
Total Living Expense	(\$48,489)	(\$69,749)	(\$53,280)	(\$57,336)
TOTAL USE OF FUNDS	\$450,762	\$832,286	\$1,139,547	\$639,418
Balancing error	1	12	-1	5

¹ Total tillable operator acres for 2005.

² Included fund transfers and withdrawals from savings, tax refunds, gifts, inheritances, transfer from other business ent. & misc.

³ Includes transfers to savings, loans to others, real estate purchases, other non-farm capital and net change in bank balance.

**Table 3. Kentucky Farm and Family Sources and Uses of Dollars, 2005
by High-Low 1/3 Non-Capital Living Expenses for Family of 3 to 5.**

<i>Item</i>	<i>Non-Capital Living Expense For Family of Three to Five</i>	
	<i>High 1/3</i>	<i>Low 1/3</i>
Number of families	16	16
Age of operator	48	46
Number in family	3.7	3.5
Age of oldest dependent child	19	16
Total tillable operator acres ¹	1,340	589
Value of feed fed	\$38,762	\$31,544
Net farm income	\$119,663	\$59,154
FAMILY LIVING EXPENSE:		
Contributions	\$5,762	\$3,078
Medical	10,994	4,396
Life Insurance	2,243	1,242
Expendables	74,393	30,603
Total Non-Capital.	(93,391)	(39,319)
Capital.	4,395	2,084
Total Living Expenses	(\$97,786)	(\$41,402)
SOURCES OF FUNDS:		
Non-taxable receipts ²	\$52,878	\$17,898
Net non-farm income	81,825	30,768
Money borrowed	462,695	93,137
Total farm receipts	<u>801,450</u>	<u>301,009</u>
TOTAL SOURCE ALL FUNDS	\$1,398,847	\$442,813
USES OF FUNDS:		
Farm		
Interest paid	\$26,205	\$15,954
Other farm expenses	627,663	213,777
Machinery-bldg. purchases	<u>100,213</u>	<u>44,083</u>
Total Farm Expenditures	(\$754,081)	(\$273,815)
Principal payments	\$406,672	\$93,044
Income & S.S. tax	31,884	7,380
Savings & investment ³	108,464	27,170
Living expenses:		
Total Non-Capital	\$93,391	\$39,319
Capital	<u>4,395</u>	<u>2,084</u>
Total Living Expense	(\$97,786)	(\$41,402)
TOTAL USE OF FUNDS	\$1,398,887	\$442,812
Balancing error	40	-1

¹ Total tillable operator acres for 2005.

² Included fund transfers and withdrawals from savings, tax refunds, gifts, inheritances, transfer from other business ent. & misc.

³ Includes transfers to savings, loans to others, real estate purchases, other non-farm capital and net change in bank balance.

**Table 4. Kentucky Farm and Family Sources and Uses of Dollars, 2005
by Age of Oldest Dependent Child**

<i>Item</i>	<i>Age of Oldest Dependent Child</i>		
	<i>Under 10</i>	<i>10 - 16</i>	<i>Over 16</i>
Number of families	8	11	38
Age of operator	38	42	49
Number in family	3.5	4.5	3.7
Age of oldest dependent child	7	13	20
Total tillable operator acres ¹	484	716	1006
Value of feed fed	\$90,072	\$26,736	\$46,884
Net farm income	\$88,139	\$95,834	\$93,704
FAMILY LIVING EXPENSE:			
Contributions	\$3,787	\$4,121	\$3,881
Medical	5,560	5,491	7,887
Life Insurance	1,273	1,630	1,544
Expendables	<u>39,280</u>	<u>48,699</u>	<u>53,838</u>
Total Non-Capital	(49,898)	(59,940)	(67,150)
Capital	<u>3,013</u>	<u>3,332</u>	<u>4,923</u>
Total Living Expenses	(\$52,912)	(\$63,272)	(\$72,072)
SOURCES OF FUNDS:			
Non-taxable receipts ²	\$37,744	\$16,341	\$34,763
Net non-farm income	30,608	33,915	50,371
Money borrowed	106,588	307,258	274,574
Total farm receipts	<u>419,529</u>	<u>468,837</u>	<u>549,542</u>
TOTAL SOURCE ALL FUNDS	\$594,469	\$826,351	\$909,249
USES OF FUNDS:			
Farm			
Interest paid	\$22,849	\$19,761	\$21,355
Other farm expenses	269,432	349,053	417,596
Machinery-bldg. purchases	<u>60,567</u>	<u>50,667</u>	<u>70,028</u>
Total Farm Expenditures	(\$352,848)	(\$419,481)	(\$508,978)
Principal payments	\$133,015	\$291,434	\$251,131
Income & S.S. tax	5,194	9,842	20,041
Savings & investment ³	50,500	42,322	57,043
Living expenses:			
Total Non-Capital	\$49,898	\$59,940	\$67,150
Capital	<u>3,013</u>	<u>3,332</u>	<u>4,923</u>
Total Living Expense	(\$52,912)	(\$63,272)	(\$72,072)
TOTAL USE OF FUNDS	\$594,468	\$826,351	\$909,266
Balancing error	-1	0	16

¹ Total tillable operator acres for 2005.

² Included fund transfers and withdrawals from savings, tax refunds, gifts, inheritances, transfer from other business ent. & misc.

³ Includes transfers to savings, loans to others, real estate purchases, other non-farm capital and net change in bank balance.

**Table 5. Kentucky Farm and Family Sources and Uses of Dollars, 2005
by Operator Tillable Acres In Farm and by High-Low 1/3 Living
Expenses for 300-600 Acre Size.**

Item	Operator Tillable Acres in Farm			Non-Capital Living Expenses 300-600 Operator Tillable Acres	
	Under 300	300-600	600+	High 1/3	Low 1/3
Number of families	33	35	51	12	12
Age of operator	59	60	51	55	65
Number in family	2.6	2.6	3.1	3.1	2.1
Age of oldest dependent child	16	15	18	15	19
Total tillable operator acres ¹	162	417	1,233	397	433
Value of feed fed	\$35,960	\$33,561	\$30,608	\$55,690	\$13,369
Net farm income	\$29,840	\$51,039	\$98,330	\$76,816	\$28,320
FAMILY LIVING EXPENSE:					
Contributions	\$3,522	\$4,053	\$4,547	\$5,387	\$2,078
Medical	6,256	7,253	8,106	6,729	7,846
Life Insurance	969	1,472	1,715	2,068	1,244
Expendables	<u>29,557</u>	<u>36,282</u>	<u>52,104</u>	<u>54,095</u>	<u>17,946</u>
Total Non-Capital.	(40,304)	(49,060)	(66,473)	(68,279)	(29,113)
Capital	<u>2,749</u>	<u>1,293</u>	<u>5,810</u>	<u>361</u>	<u>1,158</u>
Total Living Expenses	(\$43,054)	(\$50,353)	(\$72,283)	(\$68,641)	(\$30,271)
SOURCES OF FUNDS:					
Non-taxable receipts ²	\$22,341	\$50,001	\$25,874	\$87,507	\$25,214
Net non-farm income	35,474	50,132	41,570	52,034	54,296
Money borrowed	101,548	106,313	309,939	163,011	58,917
Total farm receipts	<u>191,930</u>	<u>216,657</u>	<u>616,634</u>	<u>311,969</u>	<u>130,828</u>
TOTAL SOURCE ALL FUNDS	\$351,294	\$423,104	\$994,017	\$614,520	\$269,255
USES OF FUNDS:					
Farm					
Interest paid	\$11,222	\$10,675	\$25,269	\$12,914	\$8,308
Other farm expenses	134,372	150,496	454,107	221,749	80,525
Machinery-bldg. purchases	<u>27,164</u>	<u>28,007</u>	<u>79,817</u>	<u>27,825</u>	<u>24,297</u>
Total Farm Expenditures	(\$172,758)	(\$189,177)	(\$559,193)	(\$262,488)	(\$113,130)
Principal payments	\$94,771	\$109,860	\$283,998	\$143,903	\$81,314
Income & S.S. tax	7,204	10,411	22,083	13,199	8,349
Savings & investment ³	33,506	63,303	56,473	126,289	36,191
Living expenses:					
Total Non-Capital	\$40,304	\$49,060	\$66,473	\$68,279	\$29,113
Capital	<u>2,749</u>	<u>1,293</u>	<u>5,810</u>	<u>361</u>	<u>1,158</u>
Total Living Expense	(\$43,054)	(\$50,353)	(\$72,283)	(\$68,641)	(\$30,271)
TOTAL USE OF FUNDS	\$351,294	\$423,104	\$994,030	\$614,519	\$269,255
Balancing error	0	0	12	-1	0

¹ Total tillable operator acres for 2005.

² Included fund transfers and withdrawals from savings, tax refunds, gifts, inheritances, transfer from other business ent. & misc.

³ Includes transfers to savings, loans to others, real estate purchases, other non-farm capital and net change in bank balance.

**Table 6. Kentucky Farm and Family Sources and Uses of Dollars, 2005,
by Age of Operator for Family of 1 to 2.**

<i>Item</i>	<i>Age of Operator</i>	
	<i>Less than 45</i>	<i>45 and Older</i>
Number of families	3	62
Age of operator	36	66
Number in family	2.0	1.9
Age of oldest dependent child	NA	NA
Total tillable operator acres ¹	768	500
Value of feed fed	\$0	\$18,665
Net farm income	\$46,119	\$38,418
FAMILY LIVING EXPENSE:		
Contributions	\$3,530	\$4,276
Medical	2,000	7,860
Life Insurance	2,616	1,417
Expendables	<u>52,621</u>	<u>31,838</u>
Total Non-Capital.	(60,767)	(45,391)
Capital.	<u>218</u>	<u>2,966</u>
Total Living Expenses	(\$60,985)	(\$48,357)
SOURCES OF FUNDS:		
Non-taxable receipts ²	\$15,733	\$50,267
Net non-farm income	24,392	41,593
Money borrowed	313,916	119,887
Total farm receipts	<u>506,590</u>	<u>235,069</u>
TOTAL SOURCE ALL FUNDS	\$860,631	\$446,817
USES OF FUNDS:		
Farm		
Interest paid	\$39,906	\$11,513
Other farm expenses	322,296	163,514
Machinery-bldg. purchases	<u>79,412</u>	<u>32,600</u>
Total Farm Expenditures	(\$441,614)	(\$207,627)
Principal payments	\$233,949	\$114,322
Income & S.S. tax	17,178	13,450
Savings & investment ³	106,906	63,062
Living expenses:		
Total Non-Capital	\$60,767	\$45,391
Capital	<u>218</u>	<u>2,966</u>
Total Living Expense	(\$60,985)	(\$48,357)
TOTAL USE OF FUNDS	\$860,632	\$446,817
Balancing error	1	1

¹ Total tillable operator acres for 2005.

² Included fund transfers and withdrawals from savings, tax refunds, gifts, inheritances, transfer from other business ent. & misc.

³ Includes transfers to savings, loans to others, real estate purchases, other non-farm capital and net change in bank balance.

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