

Kentucky Farm Business Management Program

Family Living
2006 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 and production 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.

Your first thoughts may be what does a family living study have to do with farm management? The fact is that unless there is sufficient off-farm income to fund the family activities, then the farm must create enough income to fund the farming operation, pay on farm related debt, and pay for the family living expenses. There are many different types of expenses included in family living from food and shelter to vacations and personal vehicles. Some of these expenses can be considered fixed (i.e. you must have them) however, other expenses can be eliminated or decreased if needed. Studies have shown that although farm income tends to fluctuate from year to year based on weather, yields, prices, etc. that family living expenses tend to remain on an incline. If farm income is decreasing then where are the funds coming from to finance the increasing family living expenses?

This study is based on data from the Kentucky Farm Business Management Program and includes financial information obtained from the records of the farmer-members who participate in the KFBM program and track family living expenses. Average family living expenses will be analyzed based on trends from 2002-2006, size of family, age of children, size of farm, and age of operator.

Average Sources & Uses Trend

The average Farm and Family Sources and Uses of Dollars Trends are summarized in Table 1. Data taken from the members of the KFBM program indicate that average family living expenses were \$59,504 in 2006, this is a 3.8% increase over the 2005 level and an incredible 28.9% higher than the average family living just five years ago in 2002. While family living expenses continue to increase, you can also see that net farm income has fluctuated from a low of \$28,989 in 2002 to a high of \$85,642 in 2006. However, with the increase in family living expenses there has also been a continual increase in the amount of non-farm income and non-taxable receipts, this indicates that all of the increase in family living expenses did not have to come from farm resources. While contributions, medical, and life insurance expenses all increased in 2006, the biggest increase was experienced in the area of expendables (i.e. groceries, utilities, personal transportation) over the 2005 level. Expendables increased 5.3% from 2005 to 2006.

Despite the increases in family living expenses and the increasing difference between money borrowed and principal payments, the average farm did tend to save more in 2006 than in any other year represented. The average farm placed \$61,857 into savings and investments, saving 9% of all uses of funds during 2006.

Size of Family

Another interesting way to look at family living expenses is to break them down by the size of the family. Table 2 and Table 3 analyze farm family living expenses based on the size of the family. While the all family average living expense is \$59,504, the average family living expense based on family size ranges from \$52,174 to \$75,521 as indicated in Table 2. An interesting way to look at family living expenses by the size of the family is to break down the costs on a per person basis. From Table 2, total family living expenses for a family of size 1 to 2 persons was \$52,174 in 2006, this breaks down to \$28,985 per person. For a family size of 3 to 5 persons, family living expenses were \$18,280 per person, and for a family of greater than 5 persons family living was \$12,587 per person. Part of the difference in the level of family living per person is the sharing of some of the more basic costs (i.e. shelter, transportation). A family

of two persons still has to have a house and likely has two cars. This is the same for a family of 6, especially if the children are young.

Table 3 goes a step further and breaks down the group of families that have 3 to 5 persons into a high and low third of family living expenses. This analysis shows the differences in family living expenses that can exist within the same family size. Family living expenses range from \$108,046 for the high third to \$37,427 for the low third of the group, this is a difference of 188%. While family living expenses are much higher for the top third of the group, net farm income and non-farm income are also much higher for the top third. This indicates that more funds are available for the top third, thus making it possible to spend more on family living.

Age of Children

Along with the number of children in a household, the age of those children can also have an impact on the amount of money that goes towards family living expenses. Table 4 sorts family living expenses by the age of the oldest dependent child. As you might expect, the amount of family living expenses does increase with the age of the children, and makes a significant jump after the age of 16, which would likely be caused by increased transportation and education expenses. Non-farm income also increases for the group with children over 16, indicating the likelihood that a spouse finds it easier to work when the children are old enough to provide basic care for themselves.

Size of Farm

Do larger farms make more money and thus live better? Table 5 examines family living expenses based on the size of the farm. At first glance the above statement appears to be true, the larger farms have a higher net farm income on average as well as higher family living expenses. When broken down on a per acre basis, however, the smallest farms earn \$140 per acre of net farm income and spend \$261 per acre on family living. The largest farms earn \$114 per acre of net farm income and spend only \$56 per acre on family living. This indicates that there is a minimum cost of maintaining a family, no matter the total level of family living expenses. Table 5 also analyzes family living expenses for the high and low third for operations between 300 and 600 tillable acres, illustrating the spread of family living expense within the group.

Age of Operator

How does the age of the operator relate to the amount spent on family living expenses? Table 6 analyzes family living costs for operator younger than 45 and older than 45. It should be noted that there are only 3 families represented in the operators younger than 45, however, we can see that net farm income and family living expenses are greater for the younger group. The younger families spend less on contributions, slightly less on medical expenses, and more on life insurance and expendables. The older operators have significantly higher non-taxable receipts and non-farm income. The older operators also spend less than half of what the younger operators spend on interest and save almost five times more. The older operators also spent a significant amount more on income taxes.

While family living may not be of great concern for many operators it can be a key to the success or failure of an operation. When family living gets higher than the means to pay for it then the funds must come from somewhere. The fear is that over the long term that high family living expenses may get funded through farm borrowing, if there is not non-farm income or substantial farm incomes to provide for it. Borrowing to pay for an asset that will better or increase the farm productive unit (i.e. land and machinery) is much different than borrowing to take a vacation. Once the vacation is over all of the money is gone and you have done nothing to increase the profit making center of the farm. As stated several times in this report, there is a minimum that must be spent on family living (things that you must have), however, it is important to keep family living expenses in check, especially in years when farm incomes decline.

Table 1. Farm and Family Sources and Uses of Dollars – Average per Farm in Kentucky, 2002-2006.

Item	2006	2005	2004	2003	2002
Number of families	123	121	136	120	130
Age of operator	57	55	54	53	53
Number in family	2.8	2.8	2.8	2.9	2.9
Age of oldest dependent child	17	17	17	16	16
Total tillable operator acres ¹	746	685	745	678	692
Value of feed fed	\$29,365	\$32,446	\$29,791	\$34,494	\$25,270
Net farm income	\$85,642	\$64,594	\$70,785	\$76,774	\$28,989
FAMILY LIVING EXPENSE:					
Contributions	\$4,358	\$4,060	\$3,881	\$3,347	\$3,042
Medical	7,697	7,346	7,529	6,185	6,358
Life Insurance	1,800	1,421	1,772	1,695	1,461
Expendables	43,121	40,936	36,950	33,615	32,471
Total Non-Capital	(56,976)	(53,763)	(50,131)	(44,842)	(43,333)
Capital	2,528	3,573	3,543	3,083	2,844
Total Living Expenses	(\$59,504)	(\$57,336)	(\$53,674)	(\$47,925)	(\$46,176)
SOURCES OF FUNDS:					
Non-taxable receipts ²	40,419	31,556	26,891	24,740	21,684
Net non-farm income	43,641	42,068	36,213	31,380	27,289
Money borrowed	206,185	190,236	203,804	204,563	172,747
Total farm receipts	<u>396,481</u>	<u>375,553</u>	<u>379,183</u>	<u>324,239</u>	<u>284,949</u>
TOTAL SOURCE ALL FUNDS	\$686,726	\$639,413	\$646,091	\$584,921	\$506,669
USES OF FUNDS:					
Farm					
Interest paid	\$18,468	\$16,806	\$15,236	\$15,537	\$16,752
Other farm expenses	288,439	271,895	265,496	239,735	205,388
Machinery-bldg. purchases	<u>55,045</u>	<u>49,276</u>	<u>59,004</u>	<u>43,025</u>	<u>36,097</u>
Total Farm Expenditures	(\$361,951)	(\$337,976)	(\$339,736)	(\$298,297)	(\$258,238)
Principal payments	\$184,033	\$177,369	\$187,334	\$182,680	\$157,210
Income & S.S. tax	19,382	14,805	13,173	11,109	14,693
Savings & investment ³	61,857	51,932	52,166	44,901	30,351
Living expenses:					
Total Non-Capital	\$56,976	\$53,763	\$50,131	\$44,842	\$43,333
Capital	<u>2,528</u>	<u>3,573</u>	<u>3,543</u>	<u>3,083</u>	<u>2,844</u>
Total Living Expense	(\$59,504)	(\$57,336)	(\$53,674)	(\$47,925)	(\$46,176)
TOTAL USE OF FUNDS	\$686,727	\$639,418	\$646,084	\$584,913	\$506,668
Balancing error	1	5	-7	-8	-1

¹ Total tillable operator acres for 2002-2006.

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, 2006, by Number in Family and All Families.

Item	Number in Family			All Families
	1 - 2	3 - 5	>5	2006
Number of families	70	46	6	123
Age of operator	64	47	42	57
Number in family	1.8	3.8	6.0	2.8
Age of oldest dependent child	0	17	18	17
Total tillable operator acres ¹	559	1008	1003	746
Value of feed fed	\$23,244	\$33,051	\$75,309	\$29,365
Net farm income	\$51,295	\$131,248	\$149,957	\$85,642
FAMILY LIVING EXPENSE:				
Contributions	\$4,417	\$4,498	\$3,311	\$4,358
Medical	8,677	6,308	8,122	7,697
Life Insurance	1,811	2,010	361	1,800
Expendables	<u>35,750</u>	<u>54,844</u>	<u>43,485</u>	<u>43,121</u>
Total Non-Capital.	(50,655)	(67,660)	(55,279)	(56,976)
Capital.	<u>1,520</u>	<u>1,807</u>	<u>20,242</u>	<u>2,528</u>
Total Living Expenses	(\$52,174)	(\$69,467)	(\$75,521)	(\$59,504)
SOURCES OF FUNDS:				
Non-taxable receipts ²	\$34,952	\$52,556	\$15,736	\$40,419
Net non-farm income	42,056	50,835	13,287	43,641
Money borrowed	129,744	278,605	563,103	206,185
Total farm receipts	<u>289,370</u>	<u>534,362</u>	<u>629,684</u>	<u>396,481</u>
TOTAL SOURCE ALL FUNDS	\$496,122	\$916,357	\$1,221,810	\$686,726
USES OF FUNDS:				
Farm				
Interest paid	\$15,422	\$22,307	\$25,385	\$18,468
Other farm expenses	201,747	402,235	456,408	288,439
Machinery-bldg. purchases	<u>36,885</u>	<u>70,568</u>	<u>151,917</u>	<u>55,045</u>
Total Farm Expenditures	(\$254,054)	(\$495,110)	(\$633,711)	(\$361,951)
Principal payments	\$126,364	\$239,460	\$450,169	\$184,033
Income & S.S. tax	16,941	25,349	5,350	19,382
Savings & investment ³	46,591	86,969	57,060	61,857
Living expenses:				
Total Non-Capital	\$50,655	\$67,660	\$55,279	\$56,976
Capital	<u>1,520</u>	<u>1,807</u>	<u>20,242</u>	<u>2,528</u>
Total Living Expense	(\$52,174)	(\$69,467)	(\$75,521)	(\$59,504)
TOTAL USE OF FUNDS	\$496,124	\$916,355	\$1,221,810	\$686,727
Balancing error	2	-2	0	1

¹ Total tillable operator acres for 2006.

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, 2006, by High-Low 1/3 Non-Capital Living Expenses for Family 3 to 5.

Item	Non-Capital Living Expense For Family of Three to Five	
	High 1/3	Low 1/3
Number of families	15	15
Age of operator	48	48
Number in family	3.7	3.7
Age of oldest dependent child	18	17
Total tillable operator acres ¹	1,551	624
Value of feed fed	\$37,521	\$21,067
Net farm income	\$189,795	\$81,218
FAMILY LIVING EXPENSE:		
Contributions	\$5,444	\$3,166
Medical	8,951	2,979
Life Insurance	3,551	754
Expendables	<u>87,306</u>	<u>30,023</u>
Total Non-Capital.	(105,253)	(36,923)
Capital.	<u>2,793</u>	<u>504</u>
Total Living Expenses	(\$108,046)	(\$37,427)
SOURCES OF FUNDS:		
Non-taxable receipts ²	\$84,567	\$40,385
Net non-farm income	96,104	29,449
Money borrowed	375,254	202,986
Total farm receipts	<u>806,649</u>	<u>336,083</u>
TOTAL SOURCE ALL FUNDS	\$1,362,574	\$608,903
USES OF FUNDS:		
Farm		
Interest paid	\$30,604	\$10,653
Other farm expenses	620,254	245,170
Machinery-bldg. purchases	<u>88,536</u>	<u>66,100</u>
Total Farm Expenditures	(\$739,394)	(\$321,923)
Principal payments	\$382,135	\$124,533
Income & S.S. tax	45,831	12,685
Savings & investment ³	87,162	112,335
Living expenses:		
Total Non-Capital	\$105,253	\$36,923
Capital	<u>2,793</u>	<u>504</u>
Total Living Expense	(\$108,046)	(\$37,427)
TOTAL USE OF FUNDS	\$1,362,568	\$608,903
Balancing error	-5	0

¹ Total tillable operator acres for 2006.

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, 2006, by Age of Oldest Dependent Child

Item	Age of Oldest Dependent Child		
	Under 10	10 - 16	Over 16
Number of families	5	15	32
Age of operator	40	42	50
Number in family	3.6	4.6	3.8
Age of oldest dependent child	7	13	21
Total tillable operator acres ¹	1028	882	1064
Value of feed fed	\$56,565	\$33,356	\$37,157
Net farm income	\$141,157	\$139,672	\$129,259
FAMILY LIVING EXPENSE:			
Contributions	\$4,461	\$3,553	\$4,724
Medical	5,894	4,158	7,721
Life Insurance	2,285	1,855	1,731
Expendables	47,183	44,838	58,601
Total Non-Capital.	(59,823)	(54,404)	(72,777)
Capital.	221	6,229	3,438
Total Living Expenses	(\$60,044)	(\$60,633)	(\$76,216)
SOURCES OF FUNDS:			
Non-taxable receipts ²	\$69,433	\$46,717	\$45,752
Net non-farm income	36,981	29,286	56,060
Money borrowed	414,988	331,431	285,876
Total farm receipts	<u>651,969</u>	<u>548,633</u>	<u>527,169</u>
TOTAL SOURCE ALL FUNDS	\$1,173,371	\$956,068	\$914,857
USES OF FUNDS:			
Farm			
Interest paid	\$14,054	\$26,475	\$22,220
Other farm expenses	517,603	418,997	386,509
Machinery-bldg. purchases	<u>65,561</u>	<u>89,000</u>	<u>77,962</u>
Total Farm Expenditures	(\$597,218)	(\$534,473)	(\$486,692)
Principal payments	\$309,181	\$270,681	\$253,439
Income & S.S. tax	13,935	13,331	29,016
Savings & investment ³	192,994	76,950	69,492
Living expenses:			
Total Non-Capital	\$59,823	\$54,404	\$72,777
Capital	<u>221</u>	<u>6,229</u>	<u>3,438</u>
Total Living Expense	(\$60,044)	(\$60,633)	(\$76,216)
TOTAL USE OF FUNDS	\$1,173,371	\$956,068	\$914,854
Balancing error	0	0	-2

¹ Total tillable operator acres for 2006.

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, 2006, by Operator Tillable Acres in Farm and by High-Low 1/3 Non-Capital Living Expenses for 300-600 Acre Size.

Item	Operator Tillable Acres in Farm			Non-Capital Living Expenses	
	Under 300	300-600	600+	300-600 Operator Tillable Acres	
				High 1/3	Low 1/3
Number of families	33	36	53	12	12
Age of operator	61	60	51	62	56
Number in family	2.5	2.8	3.0	2.6	3.2
Age of oldest dependent child	17	16	17	15	15
Total tillable operator acres ¹	164	435	1,334	403	444
Value of feed fed	\$42,373	\$26,835	\$23,538	\$40,065	\$12,003
Net farm income	\$22,984	\$46,959	\$152,580	\$69,462	\$34,544
FAMILY LIVING EXPENSE:					
Contributions	\$3,540	\$4,121	\$4,706	\$6,091	\$2,749
Medical	8,233	6,274	8,016	8,906	4,615
Life Insurance	524	1,436	2,875	1,570	1,246
Expendables	28,505	36,075	56,530	50,129	21,621
Total Non-Capital	(40,802)	(47,906)	(72,128)	(66,696)	(30,232)
Capital	2,124	3,377	2,196	1,984	7,676
Total Living Expenses	(\$42,926)	(\$51,283)	(\$74,324)	(\$68,680)	(\$37,908)
SOURCES OF FUNDS:					
Non-taxable receipts ²	\$17,740	\$48,508	\$49,682	\$66,121	\$38,882
Net non-farm income	35,453	42,402	42,522	40,963	46,605
Money borrowed	74,457	104,533	361,140	108,393	152,769
Total farm receipts	190,812	201,393	664,518	220,839	220,350
TOTAL SOURCE ALL FUNDS	\$318,462	\$396,837	\$1,117,863	\$436,316	\$458,606
USES OF FUNDS:					
Farm					
Interest paid	\$10,959	\$11,699	\$28,089	\$12,154	\$16,218
Other farm expenses	136,784	144,259	486,202	163,510	155,979
Machinery-bldg. purchases	22,079	34,915	90,282	18,679	51,577
Total Farm Expenditures	(\$169,822)	(\$190,873)	(\$604,573)	(\$194,342)	(\$223,774)
Principal payments	\$71,437	\$87,692	\$323,050	\$82,880	\$132,704
Income & S.S. tax	9,275	13,153	30,521	12,861	13,938
Savings & investment ³	25,005	53,836	85,393	77,553	50,283
Living expenses:					
Total Non-Capital	\$40,802	\$47,906	\$72,128	\$66,696	\$30,232
Capital	2,124	3,377	2,196	1,984	7,676
Total Living Expense	(\$42,926)	(\$51,283)	(\$74,324)	(\$68,680)	(\$37,908)
TOTAL USE OF FUNDS	\$318,465	\$396,837	\$1,117,861	\$436,316	\$458,606
Balancing error	3	0	-2	0	1

¹ Total tillable operator acres for 2006.

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, 2006, by Age of Operator for Family of 1 to 2.

Item	Age of Operator	
	Less than 45	45 and Older
Number of families	3	69
Age of operator	35	67
Number in family	1.7	1.8
Age of oldest dependent child	NA	NA
Total tillable operator acres ¹	593	554
Value of feed fed	\$995	\$24,039
Net farm income	\$69,696	\$50,430
FAMILY LIVING EXPENSE:		
Contributions	\$2,588	\$4,486
Medical	8,074	8,629
Life Insurance	4,045	1,847
Expendables	<u>44,701</u>	<u>35,497</u>
Total Non-Capital.	(59,408)	(50,460)
Capital.	<u>2,059</u>	<u>1,551</u>
Total Living Expenses	(\$61,468)	(\$52,011)
SOURCES OF FUNDS:		
Non-taxable receipts ²	\$12,913	\$35,000
Net non-farm income	14,754	43,553
Money borrowed	116,087	129,158
Total farm receipts	<u>380,670</u>	<u>285,028</u>
TOTAL SOURCE ALL FUNDS	\$524,424	\$492,738
USES OF FUNDS:		
Farm		
Interest paid	\$31,830	\$14,755
Other farm expenses	247,609	200,738
Machinery-bldg. purchases	<u>39,898</u>	<u>36,450</u>
Total Farm Expenditures	(\$319,337)	(\$251,944)
Principal payments	\$129,319	\$124,808
Income & S.S. tax	3,990	17,140
Savings & investment ³	10,310	46,838
Living expenses:		
Total Non-Capital	\$59,408	\$50,460
Capital	<u>2,059</u>	<u>1,551</u>
Total Living Expense	(\$61,468)	(\$52,011)
TOTAL USE OF FUNDS	\$524,424	\$492,740
Balancing error	0	2

¹ Total tillable operator acres for 2006.

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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