

Kentucky Farm Business Management Program
Family Living
2007 Sources and Uses Summary

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By:

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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.

Net Farm Income down 21%, Family Living Expenses up 9% in 2007! Family living expenses are tracked on participating farms as a part of the Kentucky Farm Business Management Program. These farms are sole proprietorships that provide data of their non-farm income and expenses. In 2007 there were 86 farms that provided this level of information.

The magnitude, or amount, of family living is considered a personal matter and separate from the farm by many producers. However, depending upon the sources of income that are available to fund the family, it can have a significant impact on the sustainability of the farm. This is especially true when there are limited or no sources of off-farm income, indicating that the farm must provide funds for farm operating expenses, debt repayment, capital replacement, and funds to support the family. While some family living expenses are necessary (food, shelter), the concern is that family living can take funds from the farming operation, through borrowing or other means, that in result lowers the productive ability and financial standing of the farming operation.

The level of family living can be dependent on several factors including family size, age and available funds. In an effort to account for these differences family living expenses will be examined by looking at the average per farm in Kentucky, family size, age of children, and the size of farm.

Average Sources & Uses - Trend

The fluctuations in net farm incomes and the corresponding family living expenses can be an interesting statistic to digest. As one might assume, net farm incomes have varied from year to year, increasing in years that might have been blessed with high prices, favorable rain, or other reasons, and falling in years that those variables were not as favorable. However, the interesting thing is that family living expenses do not tend to vary, but remain on an incline. This can be seen in Table 1, entitled "The Kentucky average per farm of farm and family sources and uses of dollars from 2003 - 2007." Family living expenses for the average Kentucky farm have increased from \$47,925 in 2003 to \$64,784 in 2007, a 35% increase over a five year period. In 2007, the spread between net farm income and family living expense is the narrowest that it has been at \$3,155.

Income generated outside the farm can also help to contribute, or even solely provide, for the family needs. From 2003 to 2006 there had been a gradual increase in the funds from non-farm income. However, in 2007 non-farm incomes fell from the 2006 level of \$43,641 to \$39,535, a 10% decline. The greatest increase in sources of funds was experienced in money borrowed. An area for concern for the financial security of these farms is that money borrowed increased almost twice as much as principle payments. Therefore, the average farm became increasingly indebted during 2007. At the same time, however, savings also increased 82% over 2006. The questionable state of the economy could have lead to the greater savings by individuals, putting something away for a possible rougher time ahead.

Number in Family

It would be logical to think that family living expenses should be dependent upon the number of people in the family. However, a greater number of family members does not always equate to higher living expenses. Table 2 summarizes the Kentucky farm and family sources and uses of dollars for 2007 by the number in family. The highest family living expenses are attributed to families with 3 to 5 members, at \$77,764. These families represent the typical American family with 1 to 3 children. They also represent the group with the highest off-farm income at \$51,283. Families of 3 to 5 members also had the highest level of total earned income in 2007, with net farm income of \$80,543, making a total earned income of \$131,826.

The group with the second highest family living expenses is families with 1 to 2 members. Generally, these families are those whose children are grown, as represented with an average operator age of 65. These families spend more on medical expenses than the other family sizes and spend less on interest and capital purchases. These smaller families are also farming fewer acres (less than 50%) than the larger families represented.

The lowest family living expenses are attributed to the largest families, those with greater than 5 members. These families have the highest net farm income at \$116,087 as well as farm the most acres (991 acres), but also have the lowest non-farm income at \$5,466.

Table 3 shows the Kentucky farm and family sources and uses of dollars by high and low third for families with 3 to 5 members. While the average family living expenses for families of this size is \$77,764, the low third only spent \$32,550, while the high third spent \$134,422. These wide variations in spending correspond to the levels of net farm income of \$113,707 and \$44,616 and non-farm income of \$89,742 and \$27,113 for the high and low third, respectively. There are also considerable differences in the amount of non-taxable receipts and money borrowed between the groups.

Age of Children

Not only can the number of children effect what is spent on family living, but also the age of those children. Table 4 provides data on the Kentucky Farm and Family sources and uses of dollars for 2007 by the age of the oldest child. Here, the ages of children are broken down into three groups, under 10, between 10 and 16, and over 16. It is interesting to note that all three groups are only separated by \$15,187, with families with the oldest children having the highest family living expenses at \$80,149. This could be attributed to the oldest child going to college, as the age of the oldest dependent is 21, and the parents are assisting the child in paying for books, tuition, etc. The group with children over 16 also has the lowest net farm income at \$53,354, which is less than half of the other two groups. However, to its benefit, this oldest group does have the highest non-farm income at \$62,500.

The second highest child age group, in terms of family living expenses, is the youngest group, where the oldest dependent child is under 10. Total family living expenses for this group were \$72,969. Net farm income for this group of families averaged \$124,192, while non-farm income averaged \$17,289.

Family living expenses for those whose oldest dependent child was between 10 and 16 averaged \$64,962, the lowest when sorted by age. This group also averaged to be the largest families with 4.7 members per family. Again, net farm incomes were high at \$122,555 and non-farm incomes were above the younger group at \$33,034.

Size of Farm

The size of the farming operation influences the amount of farm income, and thus could also influence what is spent on family living. Kentucky Farm and Family sources and uses of dollars for 2007 by operator tillable acres in farm and high and low third of non-capital living expenses for farms 300-600 acres in size are summarized in Table 5. In this case the data looks like one would assume, the larger the farm, the larger the net farm income as well as the larger the family living expenses.

Farms less than 300 acres exhibited a net farm income of \$17,203 and non-farm incomes of \$30,546, which correspond to family living expenses of \$40,883. On the other end of the spectrum, the largest farms, those greater than 600 acres, had net farm incomes of \$134,684, non-farm incomes of \$50,618 and family living expenses of \$92,010.

Midsized farms, those between 300 and 600 acres, had an average net farm income of \$39,562 with the high third netting \$79,656 and the low third netting only \$11,536. Family living expenses for the average mid-sized farm were \$50,889 while the high third spent \$75,176 and the low third spent \$26,253.

Focusing attention on the low third of farms between 300 and 600 acres, net farm incomes of \$11,536 and non-farm incomes of \$9,935 makes \$21,471 of earned income. Family living expenses for this group were \$26,253, leaving a deficit in earned income of \$4,782. This does not take into account any principle payments, tax payments, or additions to savings. This means that for the average low third farm between 300 and 600 acres additional funds had to come somewhere besides earnings to balance with all of the uses of funds. The only avenues for additional funds to come from are non-taxable receipts (drawing out of savings, gifts, tax refunds and inheritances) or from borrowing. It appears likely that these operations had to borrow from an operating note or other type of loan to pay principle payments on existing loans and to provide for the family. Family living expenses are low in this case, and families need certain things to survive; however, these operations need to pay particular attention to their financial situation in the next few years, as the operation can only survive for a limited amount of time under these circumstances.

The scope of family living can be large, as it can be dependent upon many factors, some of which were covered here. While the majority of the farms involved with the Kentucky Farm Business Management Program do not track all family living expenses, it is essential that all farming operations are aware of how much money is leaving the farm for non-farm uses. When non-farm uses of farm funds exceed net farm income, the farming operation is in danger. Borrowing funds to pay for farm expenses or investments that will in turn provide for more productivity or increased incomes for the farm are important for growth and continuity of the farming operation. However, using borrowed funds for family living expenses can drain the borrowing capacity of the farming operation without adding to the productivity or growth of the farming operation. At some point the farm will not be able to borrow additional funds and without surplus earnings will not be able to make debt payments, thus leading to a detrimental financial situation for both the farming operation and the family.

Table 1. Farm and Family Sources and Uses of Dollars - Average per Farm in Kentucky, 2003-2007

Item	2007	2006	2005	2004	2003
Number of families	86	123	121	136	120
Age of operator	54	57	55	54	53
Number in family	3.1	2.8	2.8	2.8	2.9
Age of oldest dependent child	16	17	17	17	16
Total tillable operator acres	707	746	685	745	678
Value of feed fed	\$53,466	\$29,365	\$32,446	\$29,791	\$34,494
Net farm income	\$67,939	\$85,642	\$64,594	\$70,785	\$76,774
FAMILY LIVING EXPENSE:					
Contributions	\$3,290	\$4,358	\$4,060	\$3,881	\$3,347
Medical	6,755	7,697	7,346	7,529	6,185
Life Insurance	1,585	1,800	1,421	1,772	1,695
Expendables	<u>49,631</u>	<u>43,121</u>	<u>40,936</u>	<u>36,950</u>	<u>33,615</u>
Total Non-Capital	(61,260)	(56,976)	(53,763)	(50,131)	(44,842)
Capital	<u>3,524</u>	<u>2,528</u>	<u>3,573</u>	<u>3,543</u>	<u>3,083</u>
Total Living Expenses	(\$64,784)	(\$59,504)	(\$57,336)	(\$53,674)	(\$47,925)
SOURCES OF FUNDS:					
Non-taxable receipts ¹	58,667	40,419	31,556	26,891	24,740
Net non-farm income	39,535	43,641	42,068	36,213	31,380
Money borrowed	309,955	206,185	190,236	203,804	204,563
Total farm receipts	<u>484,540</u>	<u>396,481</u>	<u>375,553</u>	<u>379,183</u>	<u>324,239</u>
TOTAL SOURCE ALL FUNDS	\$892,697	\$686,726	\$639,413	\$646,091	\$584,921
USES OF FUNDS:					
Farm					
Interest paid	\$28,025	\$18,468	\$16,806	\$15,236	\$15,537
Other farm expenses	352,048	288,439	271,895	265,496	239,735
Machinery-bldg. purchases	<u>87,417</u>	<u>55,045</u>	<u>49,276</u>	<u>59,004</u>	<u>43,025</u>
Total Farm Expenditures	(\$467,490)	(\$361,951)	(\$337,976)	(\$339,736)	(\$298,297)
Principal payments	\$236,558	\$184,033	\$177,369	\$187,334	\$182,680
Income & S.S. tax	11,360	19,382	14,805	13,173	11,109
Savings and Investment ²	112,532	61,857	51,932	52,166	44,901
Living expenses:					
Total Non-Capital	\$61,260	\$56,976	\$53,763	\$50,131	\$44,842
Capital	<u>3,524</u>	<u>2,528</u>	<u>3,573</u>	<u>3,543</u>	<u>3,083</u>
Total Living Expense	(\$64,784)	(\$59,504)	(\$57,336)	(\$53,674)	(\$47,925)
TOTAL USE OF FUNDS	\$892,723	\$686,727	\$639,418	\$646,084	\$584,913
Balancing error	27	1	5	-7	-8

¹ Included fund transfers and withdrawals from savings, tax refunds, gifts, inheritances, transfer from other business ent. & misc.

² 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, 2007, by Number in Family and All Families

Item	Number in Family			All Families
	1 - 2	3 - 5	>5	2007
Number of families	36	45	5	86
Age of operator	65	46	42	54
Number in family	1.9	3.8	6.0	3.1
Age of oldest dependent child	0	16	17	16
Total tillable operator acres	427	899	991	707
Value of feed fed	\$37,311	\$56,714	\$140,552	\$53,466
Net farm income	\$45,499	\$80,543	\$116,087	\$67,939
FAMILY LIVING EXPENSE:				
Contributions	\$3,406	\$3,330	\$2,087	\$3,290
Medical	7,715	6,075	5,959	6,755
Life Insurance	1,409	1,902	0	1,585
Expendables	32,435	64,562	39,063	49,631
Total Non-Capital	(44,966)	(75,867)	(47,110)	(61,260)
Capital	5,757	1,896	2,095	3,524
Total Living Expenses	(\$50,723)	(\$77,764)	(\$49,205)	(\$64,784)
SOURCES OF FUNDS:				
Non-taxable receipts ¹	\$32,434	\$77,442	\$78,563	\$58,667
Net non-farm income	29,582	51,283	5,466	39,535
Money borrowed	171,260	387,863	607,387	309,955
Total farm receipts	<u>298,505</u>	<u>607,336</u>	<u>718,825</u>	<u>484,540</u>
TOTAL SOURCE ALL FUNDS	\$531,781	\$1,123,924	\$1,410,242	\$892,697
USES OF FUNDS:				
Farm				
Interest paid	\$13,375	\$39,557	\$29,723	\$28,025
Other farm expenses	208,622	441,270	581,709	352,048
Machinery-bldg. purchases	<u>30,379</u>	<u>125,779</u>	<u>152,828</u>	<u>87,417</u>
Total Farm Expenditures	(\$252,376)	(\$606,606)	(\$764,260)	(\$467,490)
Principal payments	\$158,588	\$269,292	\$503,336	\$236,558
Income & S.S. tax	10,539	12,630	5,845	11,360
Savings and Investment ²	59,555	157,684	87,595	112,532
Living expenses:				
Total Non-Capital	\$44,966	\$75,867	\$47,110	\$61,260
Capital	<u>5,757</u>	<u>1,896</u>	<u>2,095</u>	<u>3,524</u>
Total Living Expense	(\$50,723)	(\$77,764)	(\$49,205)	(\$64,784)
TOTAL USE OF FUNDS	\$531,780	\$1,123,976	\$1,410,242	\$892,723
Balancing error	0	51	0	27

¹ Included fund transfers and withdrawals from savings, tax refunds, gifts, inheritances, transfer from other business ent. & misc.

² 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, 2007, by High-Low 1/3 Non-Capital Living Expenses for Family of 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	46	45
Number in family	3.9	3.6
Age of oldest dependent child	16	16
Total tillable operator acres	1,382	496
Value of feed fed	\$58,240	\$55,934
Net farm income	\$113,797	\$44,616
FAMILY LIVING EXPENSE:		
Contributions	\$4,195	\$2,709
Medical	8,359	4,693
Life Insurance	2,218	909
Expendables	<u>117,787</u>	<u>23,900</u>
Total Non-Capital.	(132,559)	(32,212)
Capital.	<u>1,862</u>	<u>339</u>
Total Living Expenses	(134,422)	(32,550)
SOURCES OF FUNDS:		
Non-taxable receipts ¹	\$164,624	\$15,370
Net non-farm income	89,742	27,113
Money borrowed	607,429	185,688
Total farm receipts	<u>895,903</u>	<u>367,048</u>
TOTAL SOURCE ALL FUNDS	\$1,757,698	\$595,218
USES OF FUNDS:		
Farm		
Interest paid	\$69,026	\$16,120
Other farm expenses	622,804	286,809
Machinery-bldg. purchases	<u>254,514</u>	<u>34,823</u>
Total Farm Expenditures	(946,344)	(337,752)
Principal payments	\$375,982	\$135,733
Income & S.S. tax	24,586	4,416
Savings and Investment ²	276,481	84,807
Living expenses:		
Total Non-Capital	\$132,559	\$32,212
Capital	<u>1,862</u>	<u>339</u>
Total Living Expense	(134,422)	(32,550)
TOTAL USE OF FUNDS	\$1,757,813	\$595,257
Balancing error	115	39

¹ Included fund transfers and withdrawals from savings, tax refunds, gifts, inheritances, transfer from other business ent. & misc.

² 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, 2007, by Age of Oldest Dependent Child

Item	Age of Oldest Dependent Child		
	Under 10	10 - 16	Over 16
Number of families	9	13	28
Age of operator	37	43	50
Number in family	3.4	4.7	3.9
Age of oldest dependent child	6	12	21
Total tillable operator acres	959	954	870
Value of feed fed	\$71,317	\$60,707	\$65,137
Net farm income	\$124,192	\$122,555	\$53,354
FAMILY LIVING EXPENSE:			
Contributions	\$2,763	\$3,266	\$3,319
Medical	7,129	5,645	5,915
Life Insurance	2,569	1,851	1,371
Expendables	<u>57,315</u>	<u>53,197</u>	<u>67,614</u>
Total Non-Capital.	(69,775)	(63,959)	(78,219)
Capital.	<u>3,194</u>	<u>1,004</u>	<u>1,929</u>
Total Living Expenses	(<u>\$72,969</u>)	(<u>\$64,962</u>)	(<u>\$80,149</u>)
SOURCES OF FUNDS:			
Non-taxable receipts ¹	\$23,695	\$98,866	\$84,971
Net non-farm income	17,289	33,034	62,500
Money borrowed	351,533	455,128	407,511
Total farm receipts	<u>695,706</u>	<u>711,443</u>	<u>550,505</u>
TOTAL SOURCE ALL FUNDS	\$1,088,223	\$1,298,472	\$1,105,488
USES OF FUNDS:			
Farm			
Interest paid	\$25,328	\$29,392	\$47,093
Other farm expenses	468,111	595,519	386,106
Machinery-bldg. purchases	<u>95,980</u>	<u>97,109</u>	<u>153,499</u>
Total Farm Expenditures	(<u>\$589,418</u>)	(<u>\$722,020</u>)	(<u>\$586,699</u>)
Principal payments	\$275,687	\$386,474	\$254,624
Income & S.S. tax	6,715	13,810	12,771
Savings and Investment ²	143,434	111,205	171,329
Living expenses:			
Total Non-Capital	\$69,775	\$63,959	\$78,219
Capital	<u>3,194</u>	<u>1,004</u>	<u>1,929</u>
Total Living Expense	(<u>\$72,969</u>)	(<u>\$64,962</u>)	(<u>\$80,149</u>)
TOTAL USE OF FUNDS	\$1,088,224	\$1,298,471	\$1,105,571
Balancing error	1	-1	83

¹ Included fund transfers and withdrawals from savings, tax refunds, gifts, inheritances, transfer from other business ent. & misc.

² 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, 2007, 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 300-600 Operator Tillable Acres	
	Under 300	300-600	600+	High 1/3	Low 1/3
Number of families	27	21	34	7	7
Age of operator	57	54	50	54	54
Number in family	2.6	3.3	3.4	3.4	3.0
Age of oldest dependent child	15	15	17	16	11
Total tillable operator acres	184	421	1,382	425	382
Value of feed fed	\$57,878	\$84,467	\$37,104	\$83,118	\$112,246
Net farm income	\$17,203	\$39,562	\$134,684	\$79,656	\$11,536
FAMILY LIVING EXPENSE:					
Contributions	\$2,120	\$2,955	\$4,099	\$5,579	\$976
Medical	6,338	5,265	7,361	4,327	3,554
Life Insurance	1,141	1,261	2,310	1,295	1,051
Expendables	<u>30,339</u>	<u>37,699</u>	<u>72,366</u>	<u>62,542</u>	<u>13,448</u>
Total Non-Capital	(39,939)	(47,180)	(86,136)	(73,744)	(19,029)
Capital	<u>944</u>	<u>3,709</u>	<u>5,873</u>	<u>1,432</u>	<u>7,225</u>
Total Living Expenses	(\$40,883)	(\$50,889)	(\$92,010)	(\$75,176)	(\$26,253)
SOURCES OF FUNDS:					
Non-taxable receipts ¹	\$28,608	\$36,962	\$99,336	\$67,756	\$16,511
Net non-farm income	30,546	25,870	50,618	33,851	9,935
Money borrowed	106,606	105,504	628,691	160,956	27,987
Total farm receipts	<u>244,759</u>	<u>307,983</u>	<u>840,930</u>	<u>365,599</u>	<u>260,839</u>
TOTAL SOURCE ALL FUNDS	\$410,517	\$476,318	\$1,619,574	\$628,162	\$315,272
USES OF FUNDS:					
Farm					
Interest paid	\$14,827	\$16,146	\$48,678	\$16,999	\$6,808
Other farm expenses	187,141	226,408	601,974	245,675	212,343
Machinery-bldg. purchases	<u>23,598</u>	<u>37,212</u>	<u>178,694</u>	<u>37,459</u>	<u>23,320</u>
Total Farm Expenditures	(\$225,566)	(\$279,766)	(\$829,346)	(\$300,133)	(\$242,471)
Principal payments	\$115,653	\$92,779	\$448,948	\$136,267	\$37,413
Income & S.S. tax	5,417	6,595	17,703	9,046	1,475
Savings and Investment ²	22,996	46,289	231,637	107,540	7,660
Living expenses:					
Total Non-Capital	\$39,939	\$47,180	\$86,136	\$73,744	\$19,029
Capital	<u>944</u>	<u>3,709</u>	<u>5,873</u>	<u>1,432</u>	<u>7,225</u>
Total Living Expense	(\$40,883)	(\$50,889)	(\$92,010)	(\$75,176)	(\$26,253)
TOTAL USE OF FUNDS	\$410,516	\$476,318	\$1,619,643	\$628,163	\$315,273
Balancing error	-1	0	69	0	1

¹ Included fund transfers and withdrawals from savings, tax refunds, gifts, inheritances, transfer from other business ent. & misc.

² Includes transfers to savings, loans to others, real estate purchases, other non-farm capital and net change in bank balance.