

Kentucky Farm Business Management Program

**Family Living
2009 Sources and Uses Summary**

Agricultural Economics - Extension No. 2010-08

August 2010

By:

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Acknowledgments

Special credit should be given to the Farm Business Management Specialists who supplied data used in this report. Their attention to details and accuracy of records are what make these results so valuable to farmers and to those working with farmers throughout the state. Specialists who served in 2009 and provided summary data are:

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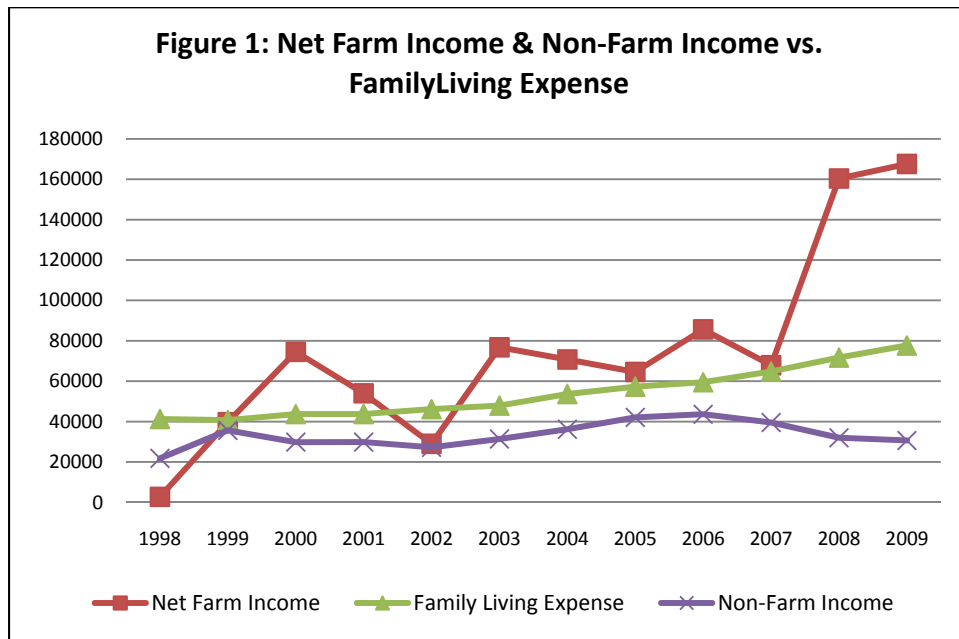
A Special Note to Our Readers

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.

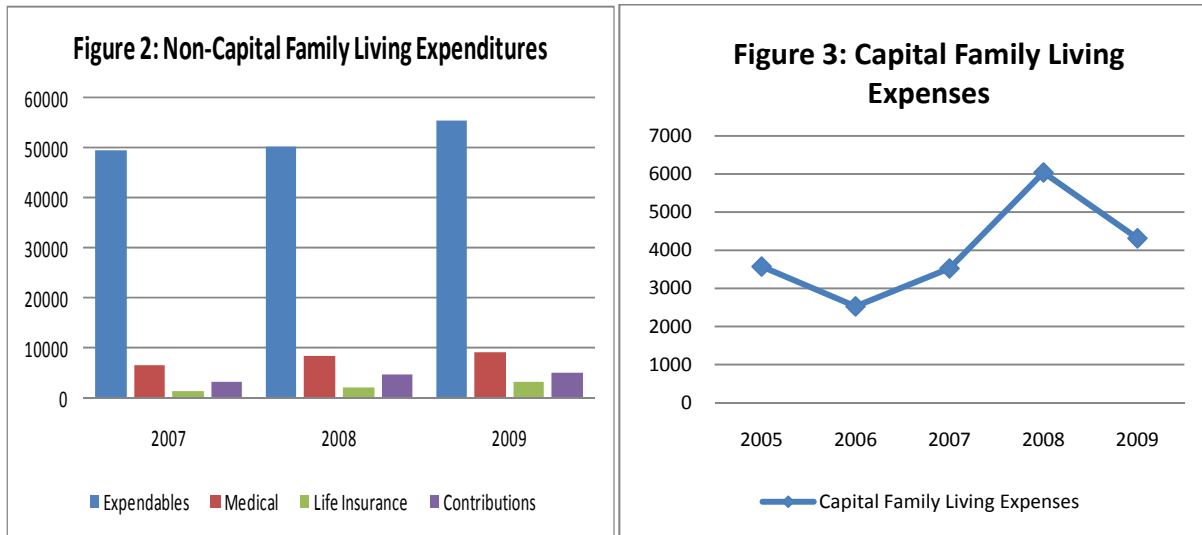
Family Living Expenses can be of vital importance to the farm. Family Living does not impact the profitability of the farming operation, but can determine its ability to cash flow. Thus it is important for farm families to measure money leaving the farm and budget accordingly. The Kentucky Farm Business Management Program collected data on Family Living Sources and Uses for 103 farm families during 2009. Family Living Sources and Uses were studied based on the average per farm, size of the family, age of the oldest child, and size of the farm.

Average Sources & Uses – Trend

Throughout recent years, average family living expenses have continued to increase, regardless of the changes in Net Farm Income and Non-Farm Income. This relationship can be seen in Figure 1. Table 1 provides summary data for the average Family Living per farm from 2005 to 2009. While Net Farm Incomes increased in 2009 by 4.48% from 2008 to \$167,577, family living expenses increased at almost twice the rate, up 8.32% to \$77,708. Net Farm Incomes during 2009 were the highest recorded for this group providing family living information while much of the rest of the U.S. economy was battling a recession. This drop in the overall U.S. economy can be seen in the decrease in Non-Farm Income from a high of \$43,641 in 2006 and \$31,993 in 2008 to the current \$30,648.



All non-capital categories of family living increased (contributions, medical, life insurance, and expendables). Expendables accounted for \$5,162 of the \$7,693 increase. Capital family living expenses for 2009 did decrease by \$1,727 from the 2008 peak to more closely match the historical trend. Capital family living expenses include purchases of personal vehicles and home improvements. This data can be found in Table 1.



Size of Family

The average size of the family reported in this study over recent years has remained relatively constant at approximately three. However, differences do exist in the amount spent on family living based on the number of people in the family. Table 2 provides summary data of family living sources and uses based on the number in the family.

Family living expenses were highest for family size of two or less at \$81,070 and lowest for families of three to five members at \$74,668. This represents a difference of only 7.9% between the groups with and without dependents. Net Farm Incomes display a different relationship between family size, with families of two or less exhibiting the lowest average Net Farm Income at \$162,019 and families with greater than six members having Net Farm Incomes of \$223,514, representing a 27.5% difference.

Non-Farm Income also varies between the three family sizes, with families between three and five members bringing in the highest average Non-Farm Income of \$39,536, which accounts for over half of their average family living expenses.

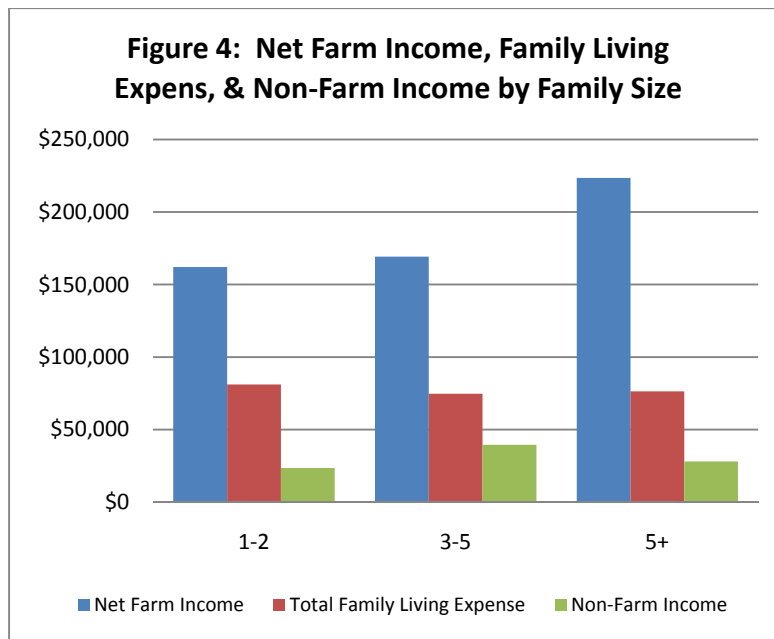


Table 3 provides family living data on the high and low third for families with three to five members. The families displayed here are very similar. Both groups have an average size of 3.9 with an average operator age of 45 and an average age of the older child being 17. However, the families in the high third group have much larger farms, averaging 1822 acres versus 338 acres in the low third group. This equates to higher Net Farm Incomes for the high third group of \$324,510 versus \$43,344 for the low third group.

Family living expenses differ greatly between the two groups. The high third group spent an average of \$117,148. The low third group spent only \$34,674. While the high third group spent more money, family living expenses account for only 36% of their Net Farm Income. The low third group spent significantly less money, but family living expenses account for 80% of their Net Farm Income. The low third group also brought in less Non-Farm Income than the high third group.

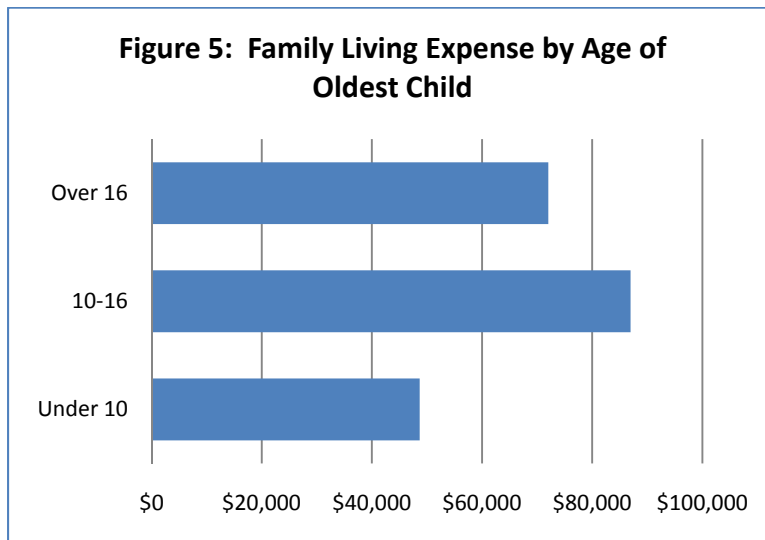
Age of Oldest Child

The age of children in the family can also impact the amount spent and needed for family living expenses. Table 4 provides family living sources and uses data sorted by the age of the oldest child. Family living expenses were greatest for families with oldest children between 10 and 16 years of age at \$86,961. Of this \$86,961, 12.5% or \$10,899 was spent on medical expenses. Those farms also had Non-Farm Income of \$34,402 to contribute towards family living expenses.

Families with children older than 16 had the second highest family living expenses at \$72,047. These farms had Net Farm Incomes of \$171,420 and Non-Farm Incomes of \$38,793.

The group with the lowest family living expenses (\$48,674) was those with an oldest child less than 10 years old. Those families also had the lowest Net Farm and Non-Farm Incomes at

\$18,360 and \$32,798 respectively. Net Farm and Non-Farm Incomes combined provide just enough income to cover family living expenses. Lower Total Sources of Funds explains the absence of family living capital expenditures for this group, as well as much lower levels of savings, taxes, and machinery and building purchases.



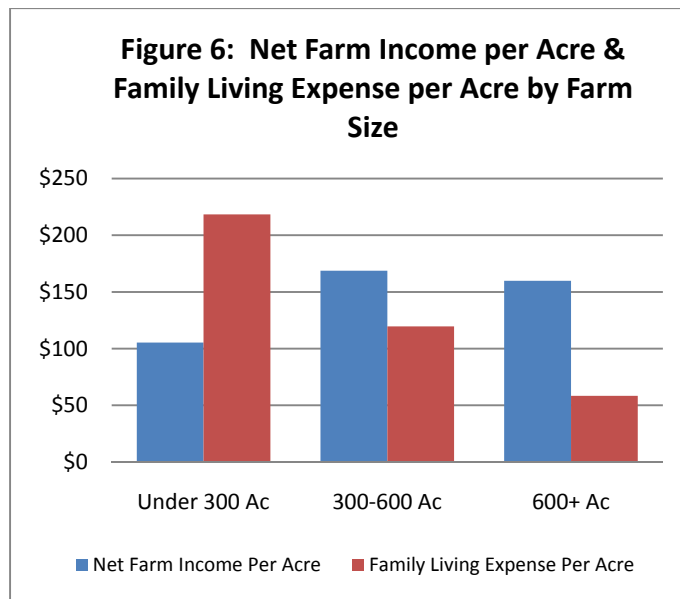
Size of Farm

Table 5 sorts family living data by the size of the farm. As expected, the larger farms had higher Net Farm Incomes and spent more on family living during 2009. The largest farms, those greater than 600 acres, had Net Farm Incomes of \$280,878 and had family living expenses of \$102,757. Spending included \$6,824 on family living capital expenditures and \$11,742 on medical expenses. These large farms also had the highest Non-Farm Incomes of \$33,472.

Farms between 300 and 600 acres had the second highest family living expenses of \$52,930 as well as the second highest Net Farm Incomes of \$74,691. These farms had the lowest Non-Farm Incomes at \$18,179.

Farms with less than 300 acres experienced the lowest Net Farm Incomes of \$18,742 and also spent the least of family living expenses, spending only \$38,853. The smaller group also had Non-Farm Incomes of \$22,450.

Figure 6 compares Net Farm Incomes and Family Living Expenses on a per acre basis by Farm Size. The smallest farms experienced the lowest Net Farm Income per acre and the highest Family Living Expense per acre. This displays the economies of scale that exist in being able to spread family living expenses over more acres. These smaller farms exhibit the need for additional family income in order to cash flow the family and the farm. As seen in Figure 6, larger farms had higher Net Farm Incomes per Acre which more than provided for the family living expenses per acre.



Conclusion

The proportion of income spent on family living expenses can vary widely across families of all sizes, ages, and type. No matter what the level of family living, the critical issue remains the ability to cash flow the farming operation. A farm can be profitable, yet unable to meet its cash requirements. Funds within a farming family are needed to pay for operation expenses, interest expense, debt payments, and family living expenses. If growth is desired within the operation, there must also be additional cash available for investment. In order to properly plan for all cash flow requirements a producer must know and budget for family living needs.

Kentucky producers have largely escaped the pressures of a depressed U.S. economy. Keeping good farm records that include tracking family living expenses and projecting cash flow can help Kentucky farms survive in economic downturns and thrive when the economy recovers.

Table 1. Farm and Family Sources and Uses of Dollars - Average per Farm in Kentucky, 2005-2009.

Item	2009	2008	2007	2006	2005
Number of families	103	87	86	123	121
Age of operator	54	56	54	57	55
Number in family	3.0	3.0	3.1	2.8	2.8
Age of oldest dependent child	18	16	16	17	17
Total tillable operator acres	1058	822	707	746	685
Value of feed fed	\$80,509	\$57,368	\$53,466	\$29,365	\$32,446
Net farm income	\$167,577	\$160,390	\$67,939	\$85,642	\$64,594
FAMILY LIVING EXPENSE:					
Contributions	\$5,074	\$4,706	\$3,290	\$4,358	\$4,060
Medical	9,431	8,381	6,755	7,697	7,346
Life Insurance	3,319	2,206	1,585	1,800	1,421
Expendables	<u>55,571</u>	<u>50,409</u>	<u>49,631</u>	<u>43,121</u>	<u>40,936</u>
Total Non-Capital.	(73,395)	(65,702)	(61,260)	(56,976)	(53,763)
Capital.	<u>4,313</u>	<u>6,040</u>	<u>3,524</u>	<u>2,528</u>	<u>3,573</u>
Total Living Expenses	(\$77,708)	(\$71,742)	(\$64,784)	(\$59,504)	(\$57,336)
SOURCES OF FUNDS:					
Non-taxable receipts ¹	280,977	81,827	58,667	40,419	31,556
Net non-farm income	30,648	31,993	39,535	43,641	42,068
Money borrowed	505,761	347,455	309,955	206,185	190,236
Total farm receipts	<u>901,829</u>	<u>607,229</u>	<u>484,540</u>	<u>396,481</u>	<u>375,553</u>
TOTAL SOURCE ALL FUNDS	\$1,719,216	\$1,068,504	\$892,697	\$686,726	\$639,413
USES OF FUNDS:					
Farm					
Interest paid	\$31,842	\$24,724	\$28,025	\$18,468	\$16,806
Other farm expenses	670,437	466,294	352,048	288,439	271,895
Machinery-bldg. purchases	<u>153,723</u>	<u>103,014</u>	<u>87,417</u>	<u>55,045</u>	<u>49,276</u>
Total Farm Expenditures	(\$856,002)	(\$594,031)	(\$467,490)	(\$361,951)	(\$337,976)
Principal payments	\$459,605	\$280,863	\$236,558	\$184,033	\$177,369
Income & S.S. tax	18,127	20,511	11,360	19,382	14,805
Savings and Investment ²	307,704	101,340	112,532	61,857	51,932
Living expenses:					
Total Non-Capital	\$73,395	\$65,702	\$61,260	\$56,976	\$53,763
Capital	<u>4,313</u>	<u>6,040</u>	<u>3,524</u>	<u>2,528</u>	<u>3,573</u>
Total Living Expense	(\$77,708)	(\$71,742)	(\$64,784)	(\$59,504)	(\$57,336)
TOTAL USE OF FUNDS	\$1,719,146	\$1,068,488	\$892,723	\$686,727	\$639,418
Balancing error	-71	-16	27	1	5
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, 2009, by Number in Family and All Families.

Item	Number in Family			All Families
	1 - 2	3 - 5	>5	2009
Number of families	50	45	7	103
Age of operator	59	48	51	54
Number in family	1.7	4.0	6.1	3.0
Age of oldest dependent child	0	18	21	18
Total tillable operator acres	1133	1018	915	1058
Value of feed fed	\$105,072	\$47,162	\$99,457	\$80,509
Net farm income	\$162,019	\$169,200	\$223,514	\$167,577
FAMILY LIVING EXPENSE:				
Contributions	\$4,880	\$5,280	\$4,959	\$5,074
Medical	9,424	9,095	10,195	9,431
Life Insurance	4,635	2,334	431	3,319
Expendables	57,505	54,944	49,741	55,571
Total Non-Capital.	(76,444)	(71,654)	(65,326)	(73,395)
Capital.	4,626	3,014	11,048	4,313
Total Living Expenses	(\$81,070)	(\$74,668)	(\$76,374)	(\$77,708)
SOURCES OF FUNDS:				
Non-taxable receipts ¹	\$94,013	\$536,034	\$15,870	\$280,977
Net non-farm income	23,567	39,536	28,015	30,648
Money borrowed	530,427	462,477	668,585	505,761
Total farm receipts	980,289	836,956	841,031	901,829
TOTAL SOURCE ALL FUNDS	\$1,628,296	\$1,875,003	\$1,553,502	\$1,719,216
USES OF FUNDS:				
Farm				
Interest paid	\$38,195	\$26,092	\$27,711	\$31,842
Other farm expenses	724,329	629,529	601,830	670,437
Machinery-bldg. purchases	153,352	152,617	185,112	153,723
Total Farm Expenditures	(\$915,876)	(\$808,238)	(\$814,653)	(\$856,002)
Principal payments	\$511,882	\$411,840	\$450,872	\$459,605
Income & S.S. tax	21,770	16,245	6,698	18,127
Savings and Investment ²	97,728	563,851	204,686	307,704
Living expenses:				
Total Non-Capital	\$76,444	\$71,654	\$65,326	\$73,395
Capital	4,626	3,014	11,048	4,313
Total Living Expense	(\$81,070)	(\$74,668)	(\$76,374)	(\$77,708)
TOTAL USE OF FUNDS	\$1,628,326	\$1,874,842	\$1,553,283	\$1,719,146
Balancing error	30	-161	-219	-71

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, 2009, 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	48	48
Number in family	3.9	3.9
Age of oldest dependent child	17	17
Total tillable operator acres	1,822	338
Value of feed fed	\$18,375	\$73,863
Net farm income	\$324,510	\$43,344
FAMILY LIVING EXPENSE:		
Contributions	\$7,212	\$2,287
Medical	10,966	5,657
Life Insurance	4,130	1,024
Expendables	90,244	25,656
Total Non-Capital.	(112,552)	(34,624)
Capital	4,596	50
Total Living Expenses	(\$117,148)	(\$34,674)
SOURCES OF FUNDS:		
Non-taxable receipts ¹	\$82,359	\$16,457
Net non-farm income	72,547	19,292
Money borrowed	809,085	139,430
Total farm receipts	<u>1,467,611</u>	<u>319,057</u>
TOTAL SOURCE ALL FUNDS	\$2,431,603	\$494,236
USES OF FUNDS:		
Farm		
Interest paid	\$29,317	\$14,143
Other farm expenses	1,093,564	254,407
Machinery-bldg. purchases	<u>290,225</u>	<u>32,054</u>
Total Farm Expenditures	(\$1,413,106)	(\$300,603)
Principal payments	\$688,451	\$144,306
Income & S.S. tax	29,190	3,693
Savings and Investment ²	183,250	10,934
Living expenses:		
Total Non-Capital	\$112,552	\$34,624
Capital	<u>4,596</u>	<u>50</u>
Total Living Expense	(\$117,148)	(\$34,674)
TOTAL USE OF FUNDS	\$2,431,145	\$494,210
Balancing error	-457	-26

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, 2009, by Age of Oldest Dependent Child

Item	Age of Oldest Dependent Child		
	Under 10	10 - 16	Over 16
Number of families	7	16	32
Age of operator	44	47	52
Number in family	3.4	4.5	4.2
Age of oldest dependent child	7	14	23
Total tillable operator acres	430	1451	887
Value of feed fed	\$51,534	\$67,357	\$43,581
Net farm income	\$18,360	\$237,004	\$171,430
FAMILY LIVING EXPENSE:			
Contributions	\$1,537	\$6,319	\$5,037
Medical	7,469	10,899	8,342
Life Insurance	1,540	3,001	1,877
Expendables	<u>38,129</u>	<u>62,129</u>	<u>52,221</u>
Total Non-Capital.	(48,674)	(82,347)	(67,477)
Capital.	<u>0</u>	<u>4,614</u>	<u>4,571</u>
Total Living Expenses	(\$48,674)	(\$86,961)	(\$72,047)
SOURCES OF FUNDS:			
Non-taxable receipts ¹	\$57,752	\$71,022	\$714,035
Net non-farm income	32,798	34,402	38,793
Money borrowed	162,834	740,582	453,021
Total farm receipts	<u>341,488</u>	<u>1,265,116</u>	<u>713,982</u>
TOTAL SOURCE ALL FUNDS	\$594,872	\$2,111,122	\$1,919,831
USES OF FUNDS:			
Farm			
Interest paid	\$15,759	\$32,691	\$29,098
Other farm expenses	298,137	943,614	526,298
Machinery-bldg. purchases	<u>28,319</u>	<u>265,550</u>	<u>127,264</u>
Total Farm Expenditures	(\$342,216)	(\$1,241,855)	(\$682,661)
Principal payments	\$161,157	\$601,100	\$404,797
Income & S.S. tax	3,614	25,200	11,737
Savings and Investment ²	39,211	155,994	748,321
Living expenses:			
Total Non-Capital.	\$48,674	\$82,347	\$67,477
Capital.	<u>0</u>	<u>4,614</u>	<u>4,571</u>
Total Living Expense	(\$48,674)	(\$86,961)	(\$72,047)
TOTAL USE OF FUNDS	\$594,872	\$2,111,111	\$1,919,562
Balancing error	0	-11	-269

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, 2009, by Operator Tillable Acres In Farm and by High-Low 1/3 Non-Capital Living Expenses for 600-900 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	17	55	6	6
Age of operator	51	55	55	55	69
Number in family	3.1	3.1	2.9	4.2	2.2
Age of oldest dependent child	18	16	18	18	15
Total tillable operator acres	178	443	1,758	408	440
Value of feed fed	\$103,831	\$90,243	\$71,906	\$111,888	\$83,871
Net farm income	\$18,742	\$74,691	\$280,878	\$108,304	\$24,991
FAMILY LIVING EXPENSE:					
Contributions	\$2,265	\$3,534	\$6,819	\$5,291	\$76
Medical	6,739	6,772	11,742	8,546	5,209
Life Insurance	1,020	1,542	5,170	1,348	1,826
Expendables	<u>28,778</u>	<u>39,351</u>	<u>72,203</u>	<u>57,094</u>	<u>23,750</u>
Total Non-Capital.	(38,803)	(51,199)	(95,934)	(72,278)	(30,861)
Capital.	<u>50</u>	<u>1,730</u>	<u>6,824</u>	<u>1,586</u>	<u>1,212</u>
Total Living Expenses	(\$38,853)	(\$52,930)	(\$102,757)	(\$73,864)	(\$32,073)
SOURCES OF FUNDS:					
Non-taxable receipts ¹	\$18,261	\$23,928	\$508,922	\$43,719	\$8,977
Net non-farm income	22,450	18,179	33,472	29,848	4,976
Money borrowed	123,206	140,278	842,127	92,171	185,801
Total farm receipts	<u>260,567</u>	<u>365,502</u>	<u>1,447,271</u>	<u>435,155</u>	<u>336,732</u>
TOTAL SOURCE ALL FUNDS	\$424,484	\$547,887	\$2,831,792	\$600,893	\$536,486
USES OF FUNDS:					
Farm					
Interest paid	\$12,761	\$13,130	\$49,308	\$7,119	\$20,152
Other farm expenses	221,356	295,758	1,055,413	337,774	278,225
Machinery-bldg. purchases	<u>29,268</u>	<u>32,759</u>	<u>263,388</u>	<u>45,839</u>	<u>20,569</u>
Total Farm Expenditures	(\$263,385)	(\$341,648)	(\$1,368,108)	(\$390,732)	(\$318,946)
Principal payments	\$91,028	\$129,315	\$774,265	\$81,753	\$177,440
Income & S.S. tax	7,235	5,328	28,345	7,074	4,518
Savings and Investment ²	23,968	18,758	558,192	47,469	3,767
Living expenses:					
Total Non-Capital.	\$38,803	\$51,199	\$95,934	\$72,278	\$30,861
Capital.	<u>50</u>	<u>1,730</u>	<u>6,824</u>	<u>1,586</u>	<u>1,212</u>
Total Living Expense	(\$38,853)	(\$52,930)	(\$102,757)	(\$73,864)	(\$32,073)
TOTAL USE OF FUNDS	\$424,470	\$547,979	\$2,831,667	\$600,893	\$536,744
Balancing error	-14	91	-125	0	258

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.