

# Kentucky Farm Business Management Program State Newsletter

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Leigh Ann Penn, Editor

## New Software for KFBM & Writing Leases

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### New Software

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### Pending for KFBM

*by Craig Infanger and Jill Wade*

The special committee appointed by Lynn Robbins last August has recommended that KFBM switch to the Illinois FBFM FARM computer program for year-end summaries and reports. This recommendation will be discussed at the upcoming Board meeting on December 2, Spindletop Hall.

The members of the special committee — Jill Wade, Mike Ellis, James Long, Rush Midkiff, and Russ Morgan — spent considerable time looking at software alternatives which would meet the needs of KFBM and the Department of Agricultural Economics for the next 5-10 years. The committee put together 18 criteria to evaluate software alternatives. These



criteria are listed on the following chart. In the end, four software packages were given a close look: St. Joseph Data Services, Minnesota's

FINPACK, the Kansas K-MAR program, and the Illinois FARM program. Basic information on each is included in the table on pages 3 and 4.

A meeting was held on October 7<sup>th</sup> for the 10 area farm management specialists and interested farmers to listen to vendor presentations from St. Joseph Data Services, Minnesota's FINPACK, and the Kansas K-

MAR system. Each of these vendors presented an overview of their product and services for an hour, followed by questions and answers.

**Kansas K-MAR** — The Kansas program demonstrated excellent staff support and a willingness to adapt to Kentucky's needs. There were major concerns about how the Kansas system generates output for the farmer-cooperators and the costs of transition to a centralized processing system. Specialists felt that the Kansas output was lengthy and confusing and that major changes would probably not be forthcoming for Kentucky with Kansas already having 2500 customers on the current system. Kansas did offer a "whole farm analysis" (landlord + operator data). The data base generated in the Kansas system is used by researchers and policymakers and is familiar to faculty at UK. Thus, the Department of Agricultural Economics indicated a strong preference for this system.

**FINPACK** — It was apparent from the discussions on October 7<sup>th</sup> that FINPACK would not adequately meet the needs of KFBM. While this program provides good financial information with the opportunity for cash flow planning and examining the financial implication of management decisions, it does not collect or analyze any production data. This was a serious deficiency in the eyes of specialists and farmers alike.

**Enhanced St. Joe** — St. Joe is listed in the chart as "Enhanced St. Joe" since it was evaluated under the assumption there would be programming enhancements to the existing software. This made the evaluation process a

little more difficult. Even with enhancements, the primary concerns with St. Joe were the lack of staff support and the problems with the historical data base to be used by faculty at UK. St. Joe has had no involvement with the Farm Financial Standards Council or other training in farm management. This requires our UK specialists to provide the direction for change and improvement in the program. St. Joe promised to work with the specialists and the Department to help solve the historical data base problems. Specialists clearly preferred to continue with the enhanced St. Joe software but the Department felt this still left serious problems about the data base uncorrected.

**Illinois** — This left the committee with the Illinois program as a compromise which might address the needs of both the specialists and the Department. Illinois is a system which provides on-site processing and familiar output which conforms to FFS guidelines. The data base is accessible and being used by university faculty at Illinois. However, Illinois is not a “software vendor” in the same sense as St. Joe and Kansas. They will make their software available to KFBM on a multi-year contract, undertake intensive training during the transition, and provide limited staff support. But KFBM must take the Illinois program largely “as is”, with only limited opportunity to pay for programming modifications on a per-hour basis.

**Conclusions** — After some extended discussions and a telephone conference call, it was concluded that Illinois would get the job done for farmer-cooperators, the area farm management specialists, and the Department. It is not a perfect program but it is more user-friendly and up-to-date. However, it is clear we will need a technical coordinator to provide support to the specialists and to faculty who will be using the data for research and classroom purposes. The cost savings under the Illinois program should generate more than enough funds for the Board to contribute \$10,000 annually towards the costs of a technical coordinator, with the Department adding

the remaining salary and benefits necessary to hire the right person.

The switch to Illinois will require a transition phase but with the improved software and the financial support of the Board for the technical coordinator, the special committee and the Department are optimistic that this decision represents a clear step forward. Of course the Board must finalize this recommendation on December 2 and then move forward with a formal arrangement to secure the license to use the Illinois program.

## Put It In Writing

by Bart Peters, Pennyroyal Farm Analysis Association

Most farming operations include some rented land. However, a recent survey indicated that only 47% of the farmers who rent land had adequate lease agreements. Successful negotiation of a lease is not the last step involved in renting a farm. Taking the time to “put it in writing” could eliminate considerable difficulties down the road.

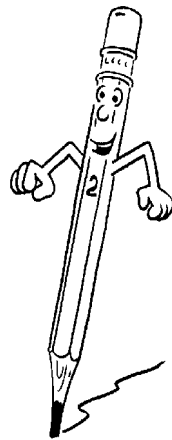
Taking the time to write a lease is a must in today’s agriculture, whether the landlord is your retired neighbor or consists of several people that seldom see the farm. Too often specialists have witnessed disputes caused by miscommunication and sealed by a handshake. These disputes often get ugly and very expensive. Not only does a written lease force both parties to consider many issues, but it serves as a guideline or reference point for any disagreements.

Any written lease should be flexible enough to allow both parties to add an addendum. Unforeseen items will show up in time and can hopefully be handled in good faith until it can be added in

writing. The rental arrangement that you negotiate will have a direct effect on the complexity or detail of the lease. A cash rented grain farm is typically the most straightforward and a crop/livestock share arrangement can be very complex. Writing a lease that will cover all situations is impossible. Also, no lease is generic enough to cover all landlords from which a tenant leases. The provisions below serve as a base point and other provisions can be added to suit the situation. Basics include:

- Name and address of both parties (If one of the parties is a separate entity, i.e., corporation, be sure to specify if it is the individual or a separate entity)
- Description of the property
- Time period involved with renewal and termination provisions
- The amount of the rent or how income is to be split
- When the rent is to be paid
- Specific responsibilities for repairs and maintenance of improvements
- Detailed expense split for share arrangements
- Contingencies for death, bankruptcy, incapacitation, etc. by either of the other parties
- Environmental compliance and pesticide record keeping
- Method of dividing shared assets upon termination, i.e., cattle, feed, etc.

You have no doubt thought of other provisions for a lease to include. Each situation calls for different basic provisions. Any question you have or have had in the past should be addressed in a lease. What happens normally in rental arrangements may not be what the lawyers and judges interpret. Always be sure that you understand every thing in the lease and seek legal help if necessary. Writing a lease is a way to manage risk and a tool every one should use. Consider getting current oral leases in writing this winter. All KFBM specialists have copies of sample leases in their office and will be glad to share with you.



<b>EVALUATION RESULTS FOR KFBM SOFTWARE ALTERNATIVES</b>				
<b>CRITERIA</b>	<b><i>ENHANCED ST. JOE</i></b>	<b><i>FINPACK/ FINANSUM</i></b>	<b><i>KANSAS</i></b>	<b><i>ILLINOIS</i></b>
<b><i>Current Use</i></b>	Year-end analysis for 450 farms in KY, 26 in GA	Year-end analysis for 4000 farms in MN, NE, MI, and OH; MI and ND adult ed	Year-end analysis for 2500 farms in Kansas and 130 in NC	Year-end analysis for 7000 Illinois farms and 175 Alabama farms
<b><i>Fully Integrated</i></b>	May be possible with additional staff support	Somewhat - Money, Quicken, PCMars, Ultra-Farm, etc.	Somewhat - short book entered in "book add" program	No
<b><i>Enterprise Analysis</i></b>	Limited	Yes - Depends on accounting package	Limited	Limited
<b><i>CFS</i></b>	Yes	Yes	All but Statement of Owner Equity	All but Statement of Owner Equity
<b><i>16 Ratios</i></b>	Yes	Yes	14	Yes
<b><i>Trend Analysis</i></b>	5 years	10 years	3 years	5 years
<b><i>Integrate Production/ Financial</i></b>	No - Some production records available	Doesn't support production information	No - Possible in future; production records available w/enter. analysis	Not with field records at present
<b><i>Comparative Analysis</i></b>	Whole farm Yes - compare to avg. in size/type class	Op only Yes - search engine in FINANSUM	Whole farm or Op only Yes - by quartile, age, groups, etc.	Operator Only Yes - compare to avg in size/type class
<b><i>Transfer of Depreciation</i></b>	N/A	Uses Redwing	Yes	Yes
<b><i>Management + Tax-Based Depreciation</i></b>	Yes	No depreciation	Yes	Yes
<b><i>Support of Manual Recordbook</i></b>	Yes	With manual entry into Finpack	Yes with book totaling program - our book might be adapted somewhat	Yes
<b><i>Support of Research</i></b>	Difficult to retrieve and use data	All data maintained in Paradox data base	Good support - 685 variables in database	Can be retrieved through dBase programs
<b><i>Tax Support</i></b>	Schedule F provided	No Schedule F but daily accounting can provide cash inc.st.	Schedule F report	Schedule F & depreciation worksheet
<b><i>Combine Entities for Joint Analysis</i></b>	No	No	Yes	Yes

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<b><i>Staff Support</i></b>	Primarily programmers - direction has come from EDP Committee	Center for Farm Financial Mgmt. programmers, tech support, etc.	K-MAR: full time programmers, Ag Economist with FFS involvement	Ag economist with FFS involvement. Programming contracted with private firm.
<b><i>UK Staff</i></b>	Technical coordinator required	Technical coordinator required	Kansas provides on-site training for UK Staff;	Technical coordinator required. Ill. provide training.
<b><i>Upfront Cost</i></b>	\$7300 (Not a firm estimate) only with 5 year contract	To purchase 8 copies of all software + FINANSUM	Purchase 8 copies of MCFP \$3200	1st year charge \$1000/specialist Some training & software costs.
<b><i>Annual Cost</i></b>	\$10,500 with 5 year contract + technical coordinator	\$5,095 per year + technical coordinator	\$12,050 reduce cost to \$3000 in 1st year to cover training cost.	\$750/specialist 2nd through 4th years + technical coordinator

I hope you enjoyed the newsletter.  
 All specialists join with me in wishing  
 each of you a very happy holiday season.

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