11-1945

EC878 Revised 1945 Father-Son Business Agreements

Frank Miller

George Hendricks

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FATHER-SON FARM BUSINESS AGREEMENTS

by

Frank Miller, Department of Rural Economics

and

George Hendrix, Agricultural Extension Service

NOTE:

Three agreement forms, one each for the three types of agreements are attached to this circular. If desired detach and discard those not needed.

Additional copies of these agreements may be secured from your county agricultural agent.

Many farmers who wish to share the responsibility of operating their farms have found it advantageous to work out farming agreements with their sons. Such agreements contribute a great deal toward the stability of agriculture, by making it possible to continue one family on the same farm from one generation to another.

Written agreements whereby the contributions of each party are definitely indicated are much better than oral agreements which are usually somewhat indefinite. Such agreements increase the son's incentive to farm and do much to eliminate misunderstandings. Also, in case of the death of either party a written agreement makes possible a settlement that is more satisfactory to all concerned than is possible with an oral agreement.

A successful farm business agreement must meet the following conditions:

1. The Farm Business Should Be Large Enough To Provide Adequate Income For Two Families.

Low income is one of the principal causes of dissatisfaction between parties. As a rule the business should be expanded when the income is to be shared so there will be enough to take care of the needs of the Junior party, without too much sacrifice on the part of the landlord. If the present farm business is too small, it can be increased by renting additional land, by expanding the livestock enterprises, or by growing more intensive crops. An increased number of livestock, such as dairy cattle and poultry, often will fit into the partnership agreement because these enterprises require year-long attention and can be used to provide continuous productive work for the entire labor force.

2. Living Conditions.

If the father and son each has a family it is highly desirable for the two families to live in separate houses. This arrangement tends to minimize personal friction which often is a factor in the failure of a father-son partnership. In connection with living conditions, an agreement should be reached regarding the use of home grown products, such as milk, butter, eggs, and vegetables.
3. **Personal Relationships Between Father and Son.**

It is absolutely necessary for father and son to have the ability to work and plan together. In fact, if this is not possible the agreement will probably be a failure.

4. **Farm Account Books.**

The whole father-son arrangement should be based on a contract which provides for the keeping of accurate farm records. Otherwise, it is doubtful whether a fair division of the expenses and net income can be obtained. The farm accounts should include a detailed list of all income and expenses, including changes in inventories of crops, livestock, machinery and equipment, and improvements in real estate.*

**Types of Farm Business Agreements**

The terms of the father-son written Farm Business Agreement will not be the same in all cases. The provisions will depend on whether the son contributes only his labor; whether he owns part of the personal property of the farm; whether he has a share in the ownership of real estate as well as personal property; or whether the father plans to retire from farming, thus leaving the son the entire responsibility. In the latter case a tenant relationship could exist between father and son and it could contain arrangements for the son's acquiring an equity in the farm. In all cases the agreement should provide for a fair division of income and expense based upon the contribution each party makes to the business.

In all father-son Farm Business Agreements it is assumed that each party will contribute his entire time to the farm business either in the form of labor or management or both. These agreements can be classified under three general headings which are as follows:

1. *"Labor and Management Share"*: Father furnishes all of the owned farm property.

2. *"Personal Property Share"*: Son owns half interest in livestock, equipment and other personal property but owns none of the real estate.

3. *"Real Estate and Personal Property Share"*: Son owns half interest in personal property plus a part interest in real estate.

* Consult the county agricultural agent for advice concerning the farm record book.
How to Use the Farm Business Agreements

The following general instructions will apply to all three types of agreements. These instructions should be carefully studied before the agreement is filled out.

1. Read the appropriate agreement carefully. After careful consideration of the form as a whole, mark out those conditions which are not applicable, and add any conditions desired which are not present.

2. Decide upon the date the agreement will begin. In many cases, the spring of the year when the inventories of growing crops, feed, and supplies are usually the lowest will be a good time for the agreement to begin. However, it can start any time during the year.

3. Enumerate and place a value on all farm property. The day the agreement becomes effective, a complete inventory should be taken of all real estate, livestock, machinery, equipment, growing crops, feeds, and supplies. Both parties should participate in the enumeration and valuation of the inventory so that misunderstandings will not develop later concerning the inventory and its value. The inventory value should be based on the price which could be received for the property if a reasonable length of time were allowed for its disposal.

4. Determine the wage allowance for each party. The wage for labor and management of father and son should be based on the anticipated income of the farm, and the labor and management contribution of each party. During years of low farm incomes, it may be necessary to lower the wage allowances. In case the net farm income is not sufficient to pay the combined wage allowance of the partners, then the wage allowance paid to each may be decreased proportionately.

5. Decide on the interest rate for farm capital. The interest rate will have to be arbitrarily selected on the basis of the interest rates prevalent on real estate and chattel mortgages in the local farming community, and the interest rate which could be received for other than agricultural uses of the money now invested in farm property.

6. Prepare business agreement in duplicate. Each party to the agreement should have a copy signed by both parties.
Form 1  Labor and Management Share

Father furnishes all of the owned farm property.

FATHER-SON FARM BUSINESS AGREEMENT

This agreement made this __________ day of __________________, 19__,

by and between ________________________________, the father,

and ________________________________, the son.

Witnesseth:

ARTICLE I. Purpose

The aforesaid father and son hereby form an agreement for the sole purpose

of operating a farm business on the following described real estate: ____________,

Acres ______ Sec. ______ Lmp. ______ Range ____________

Acres ______ Sec. ______ Lmp. ______ Range ____________

Acres ______ Sec. ______ Lmp. ______ Range ____________

situated in the County of ________________________, in the State of ____________,

and on any other land which said parties may agree to rent for farming purposes.

ARTICLE II. Period Covered

This agreement is to start ______ (month) ______ (day) of 19__

and to continue from year to year on the terms herein stated until it is dissolved

or is replaced by another written agreement. The agreement may be dissolved by

either party serving notice on the other at least ______ months prior to the end

of the fiscal year when dissolution is desired. The fiscal year begins ______ (month) ______ (day)

and ends ______ (month) ______ (day).

ARTICLE III. Contributions

A. Labor

Each party shall contribute his entire labor and management to the

farm business.

B. Real Estate

Father shall furnish the land and buildings as described in Article I.

C. Personal Property

Father shall furnish and have ownership of all livestock, power equip-

ment, machinery, tools, crops, feeds, and supplies connected with the

farm business.
ARTICLE IV. Management

A. General operating plans shall be discussed and agreed upon at the beginning of each fiscal year. Adjustments that appear feasible during the ensuing year shall be made after being agreed upon by both parties.

B. All purchases involving more than $________ shall require mutual approval.

C. A joint checking account shall be carried with bank. Checks shall be signed (by both parties) (cross out method (by either party) not desired)

D. Financial records to be kept shall consist of:

1. A complete inventory showing ownership and value of property used in the farm business at the time the partnership starts and at the end of each fiscal year thereafter.

2. A current record of all farm receipts and expenses, including allowances made to each party.

3. A record of contributions made by each party.

ARTICLE V. Receipts and Expenses

The following payments and allowances are to be taken out of undivided gross farm receipts (gross receipts shall include receipts from sale of farm products; increases in inventory values of real estate, livestock, power equipment, machinery and tools, crops, feeds, and supplies; pay for work off the farm; and miscellaneous farm receipts):

A. All cash operating expenses of the farm business including taxes; property insurance; rent for additional land; purchases of livestock, equipment and tools; operating expenses of all equipment and tools; the cost of new building and real estate improvements, repairs and replacements necessary to keep buildings, fences, and wells in good condition; seed; purchased feed; spray materials; wages and cash cost
(Form 1 cont.)

of board for hired labor; threshing; silo filling; electric lights and power; interest on short term credit; interest on real estate mortgage indebtedness; and such other expenses as shall be mutually agreed necessary for the operation of the farm business.

B. A monthly wage for each party as agreed upon at the beginning of each fiscal year.

C. Interest payment to the father at___per cent on the difference between the value of his property used in the farm business, and the amount of the real estate mortgage. (The value of the property as of the beginning of the fiscal year shall be used to find the equity on which this payment shall be based.)

ARTICLE VI.

The balance remaining after the payments and allowances set forth in Article V are not shall be divided equally between the two parties. If at the end of the fiscal year, there is insufficient cash to pay the son in full settlement for his share, as shown by the financial summary, then the father shall personally pay the son by cash (or note) and take full ownership of the son's share in inventory increases.

ARTICLE VII. Financial Settlement

A complete financial settlement based upon the provisions of Article V shall be made at the end of each fiscal year.

ARTICLE VIII. Living Arrangements

A. Living arrangements are to be provided for both father and son and their families. If an additional house is rented for either party, the rental cost shall be shared as a farm operating expense. If either party boards the other, the boarder shall pay to the one providing the board $_________ per month as his share of the cash cost of such board.

B. The production and division of milk, butter, eggs, and other products will be as follows:

ARTICLE IX. Increases and Decreases in Value of Farm Property

The ending inventory value of real estate should reflect any increase or decrease in value due to changes in the productivity of the soil and to changes in value of real estate improvements, including the value of permanent plantings. The ending inventory value of real estate shall not be increased or decreased from the value at the beginning of the year because of a change in the general price level. Likewise, the value of livestock kept on the farm for breeding purposes shall not
(Form I Cont.)
reflect increases or decreases in market values but shall show changes in value due to growth, productivity, or age.

ARTICLE X

It is further agreed that

ARTICLE XI Arbitration

If any matter pertaining to the farm business cannot be settled by mutual agreement, that matter shall be submitted to one disinterested person agreeable to both, or to a board of three persons; one chosen by the father, one by the son, and the third by the two thus chosen. The decision of the arbitrator(s) shall be binding.

FATHER

MOTHER

SON

SON'S WIFE

(Witnesses)

29555mh-11/45
THE PROCEDURE IN MAKING THE ANNUAL SETTLEMENT
UNDER THE LABOR AND MANAGEMENT SHARE AGREEMENT IS
ILLUSTRATED IN THE FOLLOWING TABLE:

<table>
<thead>
<tr>
<th>ITEM /</th>
<th>EXAMPLE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm Receipts: /2</td>
<td></td>
</tr>
<tr>
<td>Cash farm receipts</td>
<td>$3,000</td>
</tr>
<tr>
<td>Plus increase or minus decrease in value of farm inventories /3</td>
<td>-</td>
</tr>
<tr>
<td>Total farm receipts</td>
<td>$3,500</td>
</tr>
<tr>
<td>Farm Expenses: (to be paid out of undivided total farm receipts)</td>
<td></td>
</tr>
<tr>
<td>Hired help (including cash cost of board)</td>
<td>$200</td>
</tr>
<tr>
<td>Purchases of livestock</td>
<td>100</td>
</tr>
<tr>
<td>Purchases of machinery and equipment</td>
<td>180</td>
</tr>
<tr>
<td>Purchases of feeds, crops, and seeds</td>
<td>200</td>
</tr>
<tr>
<td>Taxes</td>
<td>70</td>
</tr>
<tr>
<td>Rent for additional land</td>
<td>100</td>
</tr>
<tr>
<td>Custom work</td>
<td>80</td>
</tr>
<tr>
<td>Repairs on personal property and real estate</td>
<td>150</td>
</tr>
<tr>
<td>Electric lights and power</td>
<td>30</td>
</tr>
<tr>
<td>Operating expenses on farm equipment</td>
<td>230</td>
</tr>
<tr>
<td>Interest on short term credit</td>
<td>20</td>
</tr>
<tr>
<td>Interest on mortgage indebtedness /4</td>
<td>30</td>
</tr>
<tr>
<td>New buildings and real estate improvements</td>
<td>100</td>
</tr>
</tbody>
</table>

| Total farm expense | $1,520 |
| Net farm income (total farm receipts less total farm expenses) | $1,960 |
| Less wage for father ($__) and son ($__) | $1,200 | $720 |

Less interest to be paid father for the use of his farm property /5 | $520 |
To be equally divided between father and son | $260 |

/1 The items listed in this column appear in the same order as the items in Article V of the "Labor and Management Share" agreement.

/2 Includes receipts from sale of farm products; pay for work off the farm; miscellaneous farm receipts; plus increases, or minus decreases, in inventory values of real estate, livestock, machinery and equipment, crops, feeds and supplies.

295552-11/45
See Articles VI and Article IX in the Labor and Management Share Agreement.

All principal payments on real estate mortgage indebtedness are to be paid personally by the father and are not to be paid with partnership funds.

To obtain this figure, subtract the interest actually paid on real estate mortgage indebtedness, as indicated above, from per cent of the value of the father's farm property at the beginning of the year. (In the example the father has been allowed 4 per cent interest of a valuation of $15,000 for his farm property, which includes personal property as well as real estate. This amounts to $600. Subtracting $80 from $600 leaves $520.)
Form 2 Personal Property Share

Son owns half interest in livestock, equipment, and other personal property but owns none of the real estate.

FATHER-SON FARM BUSINESS AGREEMENT

This agreement made this __________ day of __________, 19__, by an between __________ the father, and __________ the son.

Witnesseth:

ARTICLE I. Purpose

The aforesaid father and son hereby form an agreement for the sole purpose of operating a farm business on the following described real estate:

Acres________________ Sec._______ Lwp._______ Range_______:

Acres________________ Sec._______ Lwp._______ Range_______:

Acres________________ Sec._______ Lwp._______ Range_______:

situated in the County of __________, in the State of __________, and on any other land which said parties may agree to rent for farming purposes.

ARTICLE II. Period Covered

This agreement is to start ________ (month) ________ (day), 19__, and to continue from year to year on the terms herein stated until it is dissolved or is replaced by another written agreement. The agreement may be dissolved by either party serving notice on the other at least ________ months prior to the end of the fiscal year when dissolution is desired. The fiscal year begins ________ (month) ________ (day) and ends ________ (month) ________ (day).

ARTICLE III. Contributions

A. Labor

Each party shall contribute his entire labor and management to the farm business.

B. Real Estate

Father shall furnish the land and buildings as described in Article I.

C. Personal Property

Father and son shall own jointly on 50-50 basis, all of the power equipment, machinery, tools, livestock, crops, feed, and supplies connected with the farm business.
ARTICLE IV. Management

A. General operating plans shall be discussed and agreed upon at the beginning of each fiscal year. Adjustments that appear feasible during the ensuing year shall be made after being agreed upon by both parties.

B. All purchases involving more than $________________ shall require mutual approval.

C. A joint checking account shall be carried with________________ bank. Checks shall be signed (by both parties) (cross out method not (by either party) desired) (by________________)

D. Financial records to be kept shall consist of:

1. A complete inventory showing the ownership and value of all property used in the farm business at the time the partnership starts and at the end of each fiscal year thereafter.

2. A current record of all farm receipts and expenses, including allowances made to each partner.

3. A record of contributions made by each party.

ARTICLE V. Receipts and Expenses

The following payments and allowances are to be taken out of undivided gross farm receipts (gross receipts shall include receipts from the sale of farm products; increases in inventory values of real estate, livestock, power equipment, machinery and tools, crops, feeds, and supplies; pay for work off the farm; and miscellaneous farm receipts.)

A. All cash operating expenses of the farm business including taxes; property insurance; rent for additional land; purchases of livestock, equipment and tools; operating expenses of all equipment and tools; the cost of new building and real estate improvements; repairs and replacements necessary to keep buildings, fences, and wells in good condition; seed, purchased feed; spray materials; wages and cash cost of board for hired labor; threshing; silo filling; electric lights and power; interest on short term credit; interest on real estate mortgage indebtedness; and such other expenses as shall by mutually agreed necessary for the operation of the farm business.
(Form 2 cont.)

B. A monthly wage for each party as agreed upon at the beginning of each fiscal year.

C. 1. Interest to the father at ___ per cent on his equity in the property, used in the farm business.

2. Interest to the son at ____ per cent on the value of his farm property, used in the business. //

ARTICLE VI.

The balance remaining after payments and allowances provided in Article V have been deducted shall be divided equally between the two parties.

ARTICLE VII. Financial Settlement

A complete financial settlement based upon the provisions of Article V and VI shall be made at the end of each fiscal year.

ARTICLE VIII. Living Arrangements

A. Living quarters are to be provided for both father and son and their families. If an additional house is rented for either party, the rental cost shall be shared as a farm operating expense. If either party boards the other, the boarder shall pay to the one providing the board $_______ per month as his share of the cash cost of such board.

B. The production and division of milk, butter, eggs, and other products will be as follows:


ARTICLE IX. Increases and Decreases in Value of Farm Property

The ending inventory value of real estate shall reflect any increase or decrease in value due to changes in the productivity of the soil and to changes in value of real estate improvements, including the value of permanent plantings. The ending inventory value of real estate shall not be increased or decreased from the value at the beginning of the year because of a change in the general price level. Likewise, the value of livestock kept on the farm for breeding purposes shall not

// The value of the father's and son's property as of the beginning of the fiscal year shall be used.

2955xml-11/45
(Form 2 Cont.)

reflect increases or decreases in market values but shall show changes in value due to growth, productivity, or age.

ARTICLE X.

It is further agreed that

ARTICLE XI. Arbitration

If any matter pertaining to the farm business cannot be settled by mutual agreement, that matter shall be submitted to one disinterested person agreeable to both, or to a board of three persons; one chosen by the father, one by the son, and the third by the two thus chosen. The decision of the arbitrator(s) shall be binding.

FATHER

MOTHER

SON

SON'S WIFE

WITNESS

(Witnesses)

29555m-11/45
THE PROCEDURE IN MAKING THE ANNUAL SETTLEMENT UNDER THE PERSONAL PROPERTY SHARE AGREEMENT IS ILLUSTRATED IN THE FOLLOWING TABLE:

<table>
<thead>
<tr>
<th>Item / EXAMPLE</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm Receipts: /2</td>
<td></td>
</tr>
<tr>
<td>Cash farm receipts</td>
<td>$3,000</td>
</tr>
<tr>
<td>Plus increase or minus decrease in value of farm inventories /3</td>
<td>$500</td>
</tr>
<tr>
<td>Total farm receipts</td>
<td>$3,500</td>
</tr>
<tr>
<td>Farm Expenses: (to be paid out of undivided total farm receipts)</td>
<td></td>
</tr>
<tr>
<td>Hired help (including cash cost of board)</td>
<td>$200</td>
</tr>
<tr>
<td>Purchases of livestock</td>
<td>$100</td>
</tr>
<tr>
<td>Purchases of machinery and equipment</td>
<td>$180</td>
</tr>
<tr>
<td>Purchases of feeds, crops, and seeds</td>
<td>$200</td>
</tr>
<tr>
<td>Taxes</td>
<td>$70</td>
</tr>
<tr>
<td>Rent for additional land</td>
<td>$100</td>
</tr>
<tr>
<td>Custom work</td>
<td>$60</td>
</tr>
<tr>
<td>Repairs on personal property and real estate</td>
<td>$150</td>
</tr>
<tr>
<td>Electric lights and power</td>
<td>$30</td>
</tr>
<tr>
<td>Operating expenses on farm equipment</td>
<td>$230</td>
</tr>
<tr>
<td>Interest on short term credit</td>
<td>$20</td>
</tr>
<tr>
<td>Interest on mortgage indebtedness /4</td>
<td>$80</td>
</tr>
<tr>
<td>New buildings and real estate improvements</td>
<td>$100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Totals</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total farm expenses</td>
<td>$1,520</td>
</tr>
<tr>
<td>Net farm income (total farm receipts less total farm expenses)</td>
<td>$1,980</td>
</tr>
<tr>
<td>Less wage for father ($<strong>) and son ($</strong>)</td>
<td>$1,200</td>
</tr>
<tr>
<td>Less interest to be paid father ($<strong>) and son ($</strong>) for use of their farm property /5</td>
<td>$780</td>
</tr>
<tr>
<td>To be equally divided between father and son</td>
<td>$520</td>
</tr>
</tbody>
</table>

/1 The items listed in this column appear in the same order as the items in Article V of the "Personal Property Share" agreement.
/2 Includes receipts from sale of farm products; pay for work off the farm; miscellaneous farm receipts; plus increases, or minus decreases, in inventory.
values of real estate, livestock, machinery and equipment, crops, feeds and supplies.

See Article IX in "Personal Property Share" agreement.

All principal payments on real estate mortgage indebtedness are to be paid personally by the father and are not to be paid with partnership funds.

To obtain this figure, subtract the interest actually paid on real estate mortgage indebtedness, as indicated above, from __ per cent of the value of the father's farm property at the beginning of the year. (In the example the father has been allowed 4 per cent interest on a valuation of $12,000 for his farm property, which includes personal property as well as real estate. This amounts to $480. Subtracting $80 from $480 leaves $400. The son's investment in personal property amounts to $6,000. This figure times 4 per cent gives $120. Thus the total interest to be paid father and son is $400 plus $120 or $520.)

2355th-11/45
Form 3: Real Estate and Personal Property Share

Son owns half interest in personal property plus a part interest in real estate.

FATHER-SON FARM BUSINESS AGREEMENT

This agreement made this __________ day of __________, 19__, by an between __________________________________________________________ the father and __________________________________________________________ the son.

Witnesseth:

ARTICLE I. Purpose

The aforesaid father and son hereby form an agreement for the sole purpose of operating a farm business on the following described real estate.

<table>
<thead>
<tr>
<th>Acres</th>
<th>Sec.</th>
<th>Lwp.</th>
<th>Range</th>
<th>Acres</th>
<th>Sec.</th>
<th>Lwp.</th>
<th>Range</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

owned by father, and

owned by son

situated in the County __________________________, in the State of __________________________ and on any other land which said parties may agree to rent for farming purposes.

ARTICLE II. Period Covered

This agreement is to start (month) ______ (day) ______, 19__, and to continue from year to year on the terms herein stated until it is dissolved or is replaced by another written agreement. The agreement may be dissolved by either party serving notice on the other at least ________ months prior to the end of the fiscal year when dissolution is desired. The fiscal year begins ______ (month) ______ (day) and ends ______ (month) ______ (day).

ARTICLE III. Contributions.

A. Labor

Each party shall contribute his entire labor and management to the farm business.

B. Real Estate

Father and son each shall furnish a portion of land and buildings as described in Article I.

C. Personal Property

Father and son shall own jointly on 50-50 basis, all of the
Form 3 cont.)

power equipment, machinery, tools, livestock, crops, feeds, and supplies connected with the farm business.

ARTICLE IV. Management

A. General operating plans shall be discussed and agreed upon at the beginning of each fiscal year. Adjustments that appear feasible during the ensuing year shall be made after being agreed upon by both parties.

B. All purchases involving more than $___________shall require mutual approval.

C. Financial records to be kept consist of:

1. A complete inventory showing ownership and value of all property used in the farm business at the time the partnership starts and at the end of each fiscal year thereafter.

2. A current record of all farm receipts and expenses, including allowance made to each party.

3. A record of contributions made by each party.

ARTICLE V. Receipts and Expenses

The following payments and allowances are to be taken out of undivided gross farm receipts (gross receipts shall include receipts from sale of farm products; increases in inventory values of real estate, livestock, power equipment, machinery and tools, crops, and feeds and supplies; pay for work off the farm; and miscellaneous farm receipts):

A. All cash operating expenses of the farm business including taxes; property insurance; rent for additional land; purchases of livestock, equipment and tools; operating expenses of all equipment and tools; the cost of new building and real estate improvements; repairs and replacements necessary to keep buildings, fences, and wells in good condition; seed; purchased feed; spray materials; wages and cash cost of board for hired labor; threshing; silo filling; electric lights and power; interest on short term credit; interest on father's real estate mortgage indebtedness; interest on son's real estate mortgage indebtedness; and such other expenses as are mutually agreed necessary for the operation of the farm business.
B. A monthly wage for each party as agreed upon at the beginning of each fiscal year.

C. 1. Interest to the father at ___ per cent on the difference between the value of his property, used in the farm business /1, and the amount of debt on this part of the father's property.

2. Interest to the son at ___ per cent on the difference between the value of his property, used in the farm business /1, and the amount of debt on this part of the son's property.

ARTICLE VI.

The balance remaining after payments and allowances provided in Article V have been deducted shall be divided equally between the two parties.

ARTICLE VII. Financial Settlement

A complete financial settlement based upon the provisions of this agreement shall be made at the end of each fiscal year.

ARTICLE VIII. Living Arrangements

A. Living quarters are to be provided for both the father and the son and their families. If an additional house is rented for either party, the rental cost shall be shared as a farm operating expense. If either party boards the other, the boarder shall pay to the one providing the board $________ per month as his share of the cash cost of such board.

B. The production and division of milk, butter, eggs, and other products will be as follows:

<table>
<thead>
<tr>
<th>Production Item</th>
<th>Division</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

ARTICLE IX. Increases and Decreases in Value of Farm Property.

The ending inventory value of real estate should reflect any increase or decrease in value due to changes in the productivity of the soil and to changes in value of real estate improvements, including the value of permanent plantings. The ending inventory value of real estate shall not be increased or decreased from the value at the beginning of the year because of a change in the general price level. Likewise, the value of livestock kept on the farm for breeding purposes shall not reflect increases or decreases in market values but shall show changes in value due to growth, productivity, or age.

The value of the father's and son's property as of the beginning of the fiscal year shall be used.

/1 The value of the father's and son's property as of the beginning of the fiscal year shall be used.
ARTICLE X.

It is further agreed that

ARTICLE XI. Arbitration

If any matter pertaining to the farm business cannot be settled by mutual agreement that matter shall be submitted to one disinterested person agreeable to both, or to a board of three persons; one chosen by the father, one by the son, and the third by the two thus chosen. The decision of the arbitrator(s) shall be binding.

FATHER

MOTHER

SON

SON'S WIFE

(Witnesses)
THE PROCEDURE IN MAKING THE ANNUAL SETTLEMENT
UNDER THE REAL ESTATE AND PERSONAL PROPERTY SHARE

AGREEMENT IS ILLUSTRATED IN THE FOLLOWING TABLE:

<table>
<thead>
<tr>
<th>Item</th>
<th>Example</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Farm Receipts:</td>
<td>$3,000</td>
<td></td>
</tr>
<tr>
<td>Cash farm receipts</td>
<td>$3,000</td>
<td></td>
</tr>
<tr>
<td>Plus increase or minus decrease in value of farm inventories</td>
<td>-</td>
<td>500</td>
</tr>
<tr>
<td>Total farm receipts</td>
<td>$3,500</td>
<td></td>
</tr>
<tr>
<td>Farm Expenses: (To be paid out of undivided total farm receipts)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hired help (including cash cost of board)</td>
<td>$200</td>
<td></td>
</tr>
<tr>
<td>Purchases of livestock</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Purchases of machinery and equipment</td>
<td>120</td>
<td></td>
</tr>
<tr>
<td>Purchases of feeds, crops, and seeds</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>Rent for additional land</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Custom work</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>Repairs on personal property and real estate</td>
<td>150</td>
<td></td>
</tr>
<tr>
<td>Electric lights and power</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Operating expenses on farm equipment</td>
<td>230</td>
<td></td>
</tr>
<tr>
<td>Interest on short term credit</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Interest on father's mortgage indebtedness</td>
<td>$60</td>
<td></td>
</tr>
<tr>
<td>Interest on son's mortgage indebtedness</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>New buildings and real estate improvements</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Total farm expenses</td>
<td>$1,520</td>
<td></td>
</tr>
<tr>
<td>Net farm income (total farm receipts less total farm expenses)</td>
<td>$1,980</td>
<td></td>
</tr>
<tr>
<td>Less wage for father ($<strong>) and son ($</strong>)</td>
<td>1,200</td>
<td></td>
</tr>
<tr>
<td>Less interest to be paid father ($<strong>) and son ($</strong>) for use of their farm property</td>
<td>520</td>
<td></td>
</tr>
<tr>
<td>To be equally divided between father and son</td>
<td>$260</td>
<td></td>
</tr>
</tbody>
</table>

/1 Includes receipts from sale of farm products: pay for work off the farm; miscellaneous farm receipts from sale of farm products, or minus decrease, in inventory values of real estate, livestock, machinery and equipment, crops, feeds, and supplies.

/2 See Article IX in "Real Estate and Personal Property Share" agreement.

/3 All principal payments on real estate mortgage indebtedness are to be paid personally by the father and son and are not to be paid with partnership funds.

/4 To obtain these figures, subtract the interest actually paid on the father's
real estate mortgage indebtedness from ___ per cent of the value of the father's farm property at the beginning of the year. The same procedure should be followed in computing the interest to be paid the son. (In the example the father has been allowed 4 per cent on a valuation of $9,000 for his farm property. This amounts to $360. Subtracting $60 from $360 leaves $300. The son's investment in farm property amounts to $6,000. This figure times 4 per cent gives $240. Subtracting $20 from $240 leaves $220. Thus the total interest to be paid father and son is $300 plus $220 or $520.)