

FARM BUSINESS SUCCESSION PLAN

For

Date:

Prepared for:
John A. Anderson
Agri-Business and Succession Planning KPMG LLP
613-389-3746

Contents

<u>BUSINESS OVERVIEW</u>	1
<u>EXECUTIVE SUMMARY</u>	2
<u>DESCRIPTION OF THE FARM BUSINESS</u>	4
<u>DESCRIPTION OF BUSINESS, PERSONAL GOALS AND EXPECTATIONS</u>	5
<u>RETIREMENT PLAN</u>	6
<u>TRAINING AND DEVELOPMENT PLAN FOR SUCCESSOR</u>	10
<u>FARM BUSINESS PLAN</u>	12
<u>OPERATING PLAN</u>	14
<u>MANAGEMENT CONTROL AND LABOUR TRANSFER PLAN</u>	18
<u>OWNERSHIP TRANSFER PLAN</u>	19
<u>IMPLEMENTATION TIMETABLE</u>	31
<u>COMMUNICATIONS PLAN</u>	32
<u>CONTINGENCY PLAN</u>	33

Business Overview

The business/client names (retirees, successors and non-farming members), addresses, and telephone and fax numbers.

- **Members:**

- **Employees (family):**

- **Other Employees:**
- **Retirees:**
- **Successors:**
- **Non Farming:**

A list of key contacts, including the consultant who prepared the plan

Executive Summary

A summary that describes the overall plan and highlights the action points on which the family must act to implement the plan.

- **training to successfully manage the farm** will come from:

- **Lifestyle Needs:**

Management: (Outlined in)

- Management and Operations Outline
- Employee Handbook
- Performance Reviews

Communications Plan:

- They agree that all parties have the right to request a formal, two-hour meeting on the first Monday of the month, in the home of _____ or at a location mutually agreed to by all to review business activities and make longer-term decisions. Informal meetings will occur on a daily and weekly basis as required.

Disputes and conflict resolution:

- Any disagreement that may arise between the contracting parties respecting the operation, management or termination of the farm business shall, when a mutually satisfactory settlement cannot otherwise be reached, be submitted to arbitration. Each party will name an arbiter and those persons, if necessary, will name a third. The recommendation of the arbiter or arbitration board shall be final and binding upon the shareholders and their executors, and shall always be based upon the potential for increased profit and therefore net farm income of the corporation.

Contingency Plan

- Specific to detail as to death, disability, incapacity or other disability of a shareholder; the conduct of the corporate affairs of the corporation one is referred to the Shareholders Agreement.

Concerns:

- The concern of all parties was specific to
- Must examine most tax efficient method to withdraw capital from corporation (dividends, share redemption) to meet their future lifestyle needs.

- Will have to appreciate impact of wages, dividends, redemption of capital as it impacts on CPP and OAS for _____ in future years
- Are encouraged to continue to invest in RRSPs.
- In retirement plan on wages from corporation for work provided.

All parties are advised to consult with their financial planner and accountant on the long term retirement needs of all parties

- **Treatment of non-farming children**—currently _____. Should non-farming members of the family require money to be loaned to them, the money will be owed back to the corporation. If loans from the corporation are to be considered there can be significant income tax implications. These need to be discussed with your accountant

Items to be addressed:

- Ownership Transfer plan—crystallization of present common shares of _____, and purchase of assets outside corporation, with some gifting thru the estate plan. Income tax implications of this option need to be reviewed with your accountant.
- Ownership of assets—assets outside of the corporation will be handled as a combination of sale, estate through the will and gifting.
- A lease needs to be put in place to deal with

- The new business arrangement, a re-structured corporation, and documentation of a Shareholders Agreement. (The shareholders agreement to document the legal structure specific to transfer, sale, death of a shareholder. All transfers and related information is to be maintained in the minute book of the corporation.)
- Financing required for

Other:

Notice to reader: The plan is a 'draft for discussion purposes' as there has been no further input or comment from the client to the plan since _____. Some items to be addressed may well have been completed at this time.

Description of the farm business

An outline and description of the current farm business, including what is produced, where it is located, who is involved, and the type of business arrangements (e.g., partnership, corporation, joint venture).

Business Profile:

Enterprises:

Marketing:

Description of business, personal goals and expectations

An outline and description of the goals and expectations of both the “founders/retirees” and the “successors,” with specific reference to the farm business and to their own personal aspirations.

(retirees) Business Goals:

- 1 – 2 Years
- Within 5 Years
- After 5 Years

(successors) Business Goals:

- 1 – 2 Years
- Within 5 Years
- After 5 Years

(retirees) Personal Goals:

- 1 – 2 Years
- Within 5 Years
- After 5 Years

(successors) Personal Goals:

- 1 – 2 Years
- Within 5 Years
- After 5 Years

Retirement Plan

An outline of what is going to happen in retirement and how it will be financed (i.e., goals, expectations and desired activities for retirees, including how the “founders/retirees” will or will not be involved in the farm business in the future).

Provide the address where everyone is going to live.

A financial plan outlining where money will come from and how it will be spent, both for annual living and relocation (if necessary).

Explain any retirement-income planning (e.g. RRSPs, RRIFs, CPP, OAS).

Training and Development Plan for Successor

What skills are need to successfully manage the farm and how they will be obtained.

A skills profile for a fully qualified farm manager.

A skills profile for the successor.

Skill gaps and an action plan on how they will be met (e.g. Hiring to fill gaps, additional training) – if both generations are staying involved, having them attend the same training courses could be beneficial.

An outline of a performance review process and mechanism to provide the “successor” with feedback on progress.

Farm Business Plan

An outline of how the farm business will meet the needs of both the successor(s) and retiree(s).

Analyze the current farm business (if necessary).

Outline the plan for the future direction of the farm business (e.g., maintenance, contraction, expansion, diversification, value-added), and provide a description of how this will affect the business, along with projected financial statements.

Operating Plan

Provide an outline of how everyday activities will be managed.

Note: Refer to Appendix C: Management and Operations Outline

Roles, responsibilities, and authorities for managing the business on a daily basis.

Explain if it will be a multi-generational farm with two or three generations cooperating, and/or how it will change over time.

A description and plan regarding farm business meetings to discuss such issues as the progress of the transfer process and necessary changes (e.g., how they will function, who is responsible for what and where it will take place, the involvement of non-farming family members, what they will and will not have a voice in and how long they will be involved) – the end product will be a “user’s” manual.

Management Control and Labour Transfer Plan

Provide an outline of how the transfer of labour and management will take place including a timetable for transition to the successor(s).

Note: Also refer to Appendix C: "Management and Operations" and Appendix D: "Employee Handbook."

Ownership Transfer Plan

An outline of how the farm business is currently structured (referenced back to the description of the farm business) and how this will be changed during the transfer process.

How the transfer of ownership of the assets will be handled.

Include an inventory and valuation of assets and liabilities.

Identify what the business arrangement is going to be (e.g., sole proprietorship, corporation, partnership).

Identify the transfer mechanism (e.g., purchase, gift, rental).

Include a prenuptial agreement (if necessary).

Explain the tax implications and how to address them.

Explain the financing required, and its sources.

Explain the treatment of non-farming children.

Outline the insurance requirements (e.g., death, disability).

If required, provide a copy of the will to the consultant or an overall description of the intent to assist with ownership transfer plan.

Provide a description of any other legal agreements (e.g., employment contracts, partnership agreements, shareholder agreements, buy-sell agreements).

Implementation Timetable

A summary of the overall timetable for when key activities start and finish – include time frames that allow progress to be monitored, measured, and amended if necessary.

Communications Plan

The process by which the family communicates and makes decisions (e.g. regularly scheduled family meetings).

How disputes and conflict will be managed and resolved (e.g. family voting, third-party mediation assistance).

Contingency Plan

What will happen and who will ensure implementation in such situations as death, illness, divorce, disability, business downturn, or failure.

W. Farmer Farms Ltd.

Management and Operations

Outline

2008

Operations Manager – Senior Farmer

- Day to day running of W. Farmer Farms and overseeing all operations – Crops, Field, Feeding, Milking, Elevator, Repair and Maintenance Equipment and Buildings, Financial, Human Resources, and Bookkeeping

Crops Management – Senior and Junior Farmer (50/50)

- Plan for crops to be planted the following year in December
- Meet with crop specialist
- Determine crops to be planted based on previous records of crop rotation, crop returns, and feed needs. Choose best hybrids and varieties to suit needs
- Crop plan then prepared by crop specialist to include such things as fertilizer program (including manure application) and pesticide program
- Maintain a log to keep planting dates, application rates, etc.
- As spring approaches, maintain and service equipment to be ready to work
- As work begins, check and re-check calibrations of drills, sprayers to be sure they are working well.
- After crop is planted, repair or replace parts on equipment, clean and store in machine shed
- Cut, rake and bale or chop hay crop
- Select fields best suited for dry hay or chopping

Field Operations – Senior and Junior Farmer (50/50)

- Tillage 2 units
- Planting 2 units
- Spraying 1 unit
- Fertilizing 1 unit
- Cutting hay 1 unit
- Raking & fluffing hay 2 units
- Chopping hay 1 unit
- Loading hay 1-2 units
- Baling hay 2 units
- Trucking haylage 2 units
- Packing haylage 1 unit
- Trucking hay 2-3 units
- Combining 1 unit
- Baling straw 2-3 units
- Trucking straw 2-3 units
- Loading straw 1-2 units
- Trucking grains 2-3 units
- Harvesting silage 1 unit
- Trucking silage 2 units
- Packing silage 1 unit
- Fall tillage 1 unit
- Manure spreading 2-3 units
- Manure agitation 1-2 units
- Removing manure from buildings as necessary

Five employees necessary from May 1 – Dec 1 to complete the above.

Feed Management – Junior Farmer

- Feed cattle according with ration formulations
- Meet and assess rations with feed up
- Monthly reassess feed due to pen changes, seasons etc.
- Assess and maintain feed ingredients used in rations
- Maintain records (log) of feed ingredients used, including forage and grains etc.
- Look over cattle on daily basis for condition and sickness
- Check water bowls daily for cleanliness or freezing, dump or wash monthly or as necessary
- Check mineral or salt boxes weekly and top up as necessary with recommended products
- Maintain clean face on forage piles
- Remove tires and plastic as necessary and spread or pile spoiled material
- Shovel or scrape out bunk weekly
- Pastures in summer require checking fences as well
- Custom feeding operations

Monthly Maintenance:

- Grease truck, mixer and loader
- Grease and check over belt conveyers
- Check mill and calibrate as often as necessary at least every 6 months
- Change oil in truck every 60 days

Milking (6:00 a.m., 1:00 p.m., 8:00 p.m.) – Senior Farmer

- Arrive _ hour before milking to put cows in holding area and scrape
- Milk cows in herd: pre-dip and dry with single paper towel, milk and post-dip
- Observe cows for general health, heats, breeding
- Milk treated cows accordingly and keep separate
- Keep records of breeding dates, dry dates, and calving dates
- At the end of milking, wash down milkers and parlour
- Regularly empty garbage cans
- Wash walls in the parlour every other Tuesday
- Keep milk house floor and counter top clean at all times
- Wash walls and bulk tank in milk house every other Tuesday
- Inspect the lid of the bulk tank weekly for cleanliness
- Wash out the spray ball inside the bulk tank when necessary
- Bed freestall weekly or as necessary with sawdust

Management

- Herd health every 6 weeks

Feeding Calves – Senior Farmer

- Newborn calves get colostrum for the first day, 2 litres in the first 6 hours; give anti-body booster in the first 6 hours; dip navel and inject 2cc of ADE
- Feed calves 1 litre of whole milk for an average-sized calf, less or more according to the size of the calf
- After first week, calves should be pail trained
- Start giving a small sprinkle of calf starter in their milk pail after they finish drinking; increase calf starter to a handful then make calf starter available in the 2nd pail.
- When eating a cup of calf starter a day, discontinue milk and make fresh water available.
- Fresh hay should be made available after the first week and removed once it becomes stale and replaced.
- At all times calves should be well bedded and never let get wet.

- Treat for scours and pneumonia as necessary
- After calves are weaned, they should be electrically de-horned, castrated, checked for extra teats, given a tail ring, given vitamins, and vaccinations.
- Allow calves to stay in the calf barn a week to 10 ten days following the above treatment.
- Transport them to the growing facility at Art's Farmers. There they should be fed according to feed program.
- Calves should be penned according to size. Calf pen changes should be made as necessary.
- Bed weekly or as necessary with straw.
- As calves reach breeding size, they should be tagged and put with the bull. Tags are to determine approximate breeding date.
- Springing heifers should be housed with the dry cows.
- As they approach 10 days to calving, they should be segregated and fed accordingly.
- When near calving, put them in the calving pen.
- Dry and maternity pens should be monitored frequently for problems.

Elevator Management – Senior Farmer

August

- Accept for storage, wheat, barley and oats etc.
- Schedule trucks between Farmer Farms and producers needing transportation of their crop
- Elevate into appropriate bin, check for moisture and aerate as necessary
- Keep track of load slips and make storage receipts as necessary

September

- Accept soybeans and do the same as above

October, November

- Repair and service corn dryer and related equipment as necessary for the upcoming season
- Negotiate price and supply for propane
- Schedule wet corn deliveries according to moisture conditions and priorities
- Grease and sweep out the dryer daily
- Observe gas tank levels daily and order fuel as necessary
- Monitor grain moistures - exiting dryer
- Monitor bin levels
- Aerate soybean and wheat bins on warm, dry days during daylight hours

Year round

- Keep track of grain on hand
- Contact brokers regularly for price updates
- Contact buyers/producers regularly for purchases and sales
- Organize trucking where trucking is necessary
- Write up invoices for all sales/purchases
- Keeping track of corn/soybean check-off prices (licence fees) for corn and soybean marketing boards and apply to billing

Repair & Maintenance – Equipment– Senior and Junior Farmer (50/50)

- Maintain schedule for yearly safety checks on trucks
- Do pre-season maintenance and repair on equipment
- Maintain schedule for oil and lube for all equipment
- Maintain cleanliness of shop area
- Update tools, equipment and supplies as necessary

Repair & Maintenance – Buildings – Senior and Junior Farmer (50/50)

- Maintain a schedule of repairs and maintenance weekly, monthly, yearly on buildings and building equipment (ie. elevator, belt conveyors etc.)
- Yearly visual inspection of electrical and repairs made as necessary

Financial Management – Senior Farmer

- Oversee daily cashflow
- Review monthly bills and sign cheques
- Preparing invoices for supply and services
- Maintain contact with customers
- Contact financial advisors on a regular basis (FCC, Accountant, Bank) regarding interest rates, loans etc.
- Organize monthly meetings
- Prepare yearly budget

Human Resource Management – Senior Farmer

- Hire new employees
- Train new employees
- Delegate jobs as necessary
- Yearly job and wage assessment

Bookkeeping – Office Farmer

Partnership & Corporation

To perform the following duties for each business separately

- Organize and maintain filing systems
- Answer phone/take messages/make appointments/sort mail
- Enter day to day transactions, payables and receivables, on Simply Accounting
- Bank deposits as necessary
- Deliver, mail, or pay online payments confirmed by Financial Manager
- Monthly Payroll for employees and contract workers
- Monthly GST remittances
- Monthly payroll remittances
- Monthly bank reconciliations
- Monthly soybean reports prepared for soybean marketing board on soybeans purchased
- Monthly corn reports prepared for corn board on corn purchased
- Monthly backups
- Provide up-to-date printouts for month-end management meetings
- Year-end preparation & filing / T4's / T4 summary / adjusting entries from Accountant
- Yearly admin for updating licences (elevator/operator, Farm Business Registration, Motor Vehicle Inspection Station, crop insurance forms
- Keep office area clean

Contingency Planning Checklist (Yes, No, Comment)
(Do not hesitate to make further comment on additional pages)

1. Family members have appropriate disability insurance.
2. Adult family members have an up to date estate plan in place.
3. All adult family members have wills
4. Ownership interests in our family business are protected in the event of a family member's divorce, bankruptcy, etc
5. Our family has considered the merits of adopting an alternative dispute resolution mechanism in the even of family conflict.
6. If someone wanted to take out their interest in the business today, the family buyer could access sufficient funds with which to pay the family seller without jeopardizing the business
7. The business has sufficient resources and or insurance to meet the capital gains obligations associated with an expected or unexpected triggering of an ownership change.
8. Senior family members have considered the merits of accumulating assets in junior generations of the family.
9. Senior family members have considered the merits of using all or part of their Capital Gains exemptions and, if appropriate, have done so.
10. Our family regularly looks at the tax and remuneration benefits of alternative ownership and control arrangements available for transferring business assets.
11. Ownership interests are protected from claims of creditors against individual family members
12. All family members are satisfied with the current ownership and management structure
13. Our business provides family members with limited liability protection
14. Family members are encouraged to consider pre-nuptial agreements where appropriate
15. Senior family members have assigned powers of attorney
16. As a family, we have considered whether it is preferable to continue or sell our farm business
17. If a catastrophe befell one of our family members, the family has a plan for operating the business without them.
18. Our current creditors would continue their support even if the senior member of the family were no longer involved in our business
19. Our bank will continue its current level of support even is a particular family member dies or is disabled
20. Our business has been professionally valued in the past three years.

WORKSHEET 1: Your current and retirement budgets

ANNUAL EXPENDITURES	Current	Future
Accommodation		
Mortgage or rent		
Property taxes		
Utilities		
Phone, cable		
Maintenance and repairs		
Insurance		
Furniture, fixtures, appliances, etc.		
Food and cleaning supplies		
Clothing		
Health Care		
Insurance premiums		
Uninsured expenses		
Transportation		
Public transit and taxis		
Train/plane/boat travel		
Automobile expenses		
Lease/ownership payments		
Gasoline		
Maintenance		
Insurance		
Entertainment		
Movies, sports events, etc.		
Hobbies and pastimes		
Vacations		
Gifts and charitable donations		
Debts and obligations		
Ongoing retirement savings		
Service charges and fees		
Other expenses		
TOTAL ANNUAL LIVING EXPENSES		

WORKSHEET 2: Your retirement income sources

GOVERNMENT PROGRAMS		Annual Retirement Income
Canada/Quebec Pension Plans		
Old Age Security		
Guaranteed Income Supplement		
Spouse's Allowance		
Provincial entitlements		
Private Pensions		
Investments (*complete worksheet 3)		
Employment income		
Net self-employment income		
Net business income		
Other earnings		
PRE-TAX INCOME SUB-TOTAL		
TAXES		
\$0-\$12,500		None
\$12,500-32,000	x 25% =	
\$32-64,000	x 33% =	
\$64-103,000	x 40% =	
\$103,000+	x 45% =	
Subtotal		
Less: tax offset if applicable		
Less: TOTAL INCOME TAXES		→
NET AFTER-TAX INCOME		
Expenses (from Worksheet 1)		
RETIREMENT SURPLUS/SHORTFALL		

To complete this worksheet, add up your various retirement income sources as indicated. To calculate the taxes, apply zero tax to income up to \$12,500 (or an amount corresponding to your personal tax credits as discussed in the accompanying article), 25% tax on income between that and \$32,000,

33% tax on income between \$32,000 and \$64,000, and so on. If part of your retirement income derives from dividends or capital gains, your tax on this income will be less than normal - deduct an appropriate amount from your tax total before subtracting taxes from your income.

WORKSHEET 3: Measuring the income value of your investments

ASSETS AND ACCOUNTS	Present value	Value at Retirement	Income potential
Tax-Sheltered Accounts			
RRSPs, RRIFs, etc.			
Non-Sheltered Investments			
Interest (GICs and term deposits, bonds, savings accounts, fixed-income and money-market funds, etc.)			
Capital gains (stocks, equity funds, real estate, etc.)			
Dividends (from common and preferred shares)			
ONGOING SAVINGS (see accompanying text)			
LIFE INSURANCE (cash surrender value only)			
REAL ESTATE (Exclude accommodations)			
OTHER (small business shares, saleable items, inheritances, etc.)			
TOTAL INVESTMENT INCOME (to Worksheet 2)			