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FATHER-SON PARTNERSHIP AGREEMENTS
IN FARMING

by

George B. Davis

Federal Cooperative Extension Service
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F O R E W O R D

The extent to which the most capable farm boys and girls remain on the farm will determine, in substantial measure, the future quality of Oregon agriculture. Each year, because of age of the operators, and for other reasons, several thousand farms in Oregon pass to new hands. The more these farms pass to the capable young men and women who have been farm reared and who have a background of understanding and experience of the farm and its problems, the more stable Oregon agriculture will be.

For that reason, this mimeograph on father-son partnership agreements in farming has been prepared. Its suggestions, if applied, should assist in effecting a growing and understanding business relationship between father and son. With such understanding on their part the future stewardship of Oregon agriculture may be passed with confidence to these capable young people.

Wm. L. Teutsch
Assistant Director
Extension Service

FATHER-SON PARTNERSHIP AGREEMENTS
IN FARMING /1

by

George B. Davis
Research Assistant
Department of Farm Management

Much of the economic and social stability in our present-day agriculture has been the result of the continuation of one family on the same farm from one generation to another. To a considerable degree these desirable objectives have been attained without any definite written agreement between father and son, the son eventually taking over the operation of the home farm. Undoubtedly even greater accomplishments could be effected if a financial agreement were drawn up between father and son enabling the latter to establish himself on the home farm when he is ready to start out for himself and before the father retires from active management.

It is often found that the son, while working on the farm, receives an indefinite amount of spending money as his wage. Though no specific arrangement has been made, he expects to inherit a share of the farm. If a partnership arrangement is made whereby the contribution of each is considered, it greatly increases the son's incentive to farm and provides for a desirable disposal of the home place upon the retirement or death of the father. In the absence of such a partnership agreement, the son, approaching maturity, may often lose interest in farming as a livelihood and turn to some other occupation.

The success of a partnership depends largely on the solution of problems arising from the physical characteristics of the farm organization, the personal elements involved and the nature of the partnership agreement. Some of these problems will be dealt with in the following discussion.

1. The Farm Should Be Capable of Supporting Two Families.

It is essential that the farm should have a business large enough to support the two families as well as to return interest on the total farm investment. If the present farm is too small, perhaps the size of business can be increased by renting additional land, expanding livestock enterprises, or by intensifying the cropping system. An increased number of livestock, especially dairy and poultry, will often fit into the partnership agreement because such enterprises require year-long attention and therefore provide a productive outlet for the labor and management of the father and son.

/1 In the preparation of this report the author gratefully acknowledges the helpful suggestions and basic material obtained from similar publications by the Department of Agricultural Economics and Farm Management, New York State College of Agriculture, Cornell University; The Department of Agricultural Economics, College of Agriculture, University of Illinois; and the Extension Service, College of Agriculture, University of Vermont.

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 tends to minimize personal friction which oftentimes 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 farm furnished living (milk, butter, eggs, vegetables, etc.).

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 partnership will probably be a failure. A son, interested in farming, usually has considerably more imagination and enthusiasm than his father. On the other hand, a father's attitude and policies are more apt to be tempered by mature judgment and experience. These characteristics of the two men should not be a hindrance to the success of their relationship; but rather the opposite should be true for in properly worked out partnerships each member benefits from the qualities possessed by the other.

4. Business-like Arrangement.

Very often the father-son relationship is not treated with the consideration it deserves because the relationship is not expressed by a specific written agreement. A written agreement should not be regarded as evidence of distrust between father and son. It should be considered as an aid to the partnership; an instrument that will help hold it together and keep the interested parties satisfied. The agreement will stimulate the incentive of the son by being evidence of his part in the management and operation of the farm plan and it insures an equitable return for both the father's and son's contributions.

5. Farm Account Books.

The whole father-son relationship should be based on a business-like arrangement in which the keeping of accurate farm records is essential. Otherwise, it is doubtful whether a fair division of expenses and incomes can be obtained. The farm accounts should include a detailed list of all incomes and expenses, including changes in inventories of crops, livestock, machinery and equipment, and improvements in real estate. /2

/2 Consult the county agricultural agent for advice concerning farm account books.

Partnership Agreements

The nature of the father-son written partnership agreement will not be the same in all cases. It 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 according to the contributions of each party.

In all father-son partnership 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.

Suggested partnership forms with examples for each of these three different types of agreements are included at the end of this circular. Additional copies of the forms, together with instructions and examples, may be obtained through the County Agricultural Agent, or the Department of Farm Management at Oregon State College, Corvallis, Oregon.

How to Use the Partnership Agreements

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

For example, it may not be possible for the son to contribute his entire time to the operation of the farm because of school or other reasons. In such cases the father and son should adjust the wages of each party as well as the division of income above wages and interest. (See Article III, Section A, and Article V, Section D.) Also, in case the personal property is shared on any other basis than 50-50, proper adjustments should be made. (See Forms 2 and 3, Article III, Section C, and Article V, Section C.)

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 partnership to begin. However, the agreement 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, crops, and feeds and supplies. Both partners 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. Arrange for personal advances from joint checking account. In case checks are drawn against the partnership for personal expenses of the partners, the amounts can be charged against the partnership in the farm account book as "wage payments" to the respective partners. Then at the end of the month, the total of the advances to each partner should be deducted from his monthly wage allowance.
5. 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.

6. Decide on the interest rate for farm capital. In Article V, Section C, a space is reserved for the interest rate allowed the father on the value of his farm property. 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.
7. Decide whether wages and interest are to be cumulative. The father and son should mutually agree on the procedure to be followed in the event the partnership fails to return a sufficient amount to pay the full wages and interest due the partners. Payment of all or any portion of wages and interest may be made cumulative. If this procedure is followed, then the wages due the partners, either current or cumulative, should have priority over any payments for current or cumulative interest on investment.
8. Make proper provision for the disposal of farm property and provide for the management of the farm in the event of death or incapacity of either party. Since each partnership has certain peculiarities it has not seemed feasible to prepare a standard form for this purpose. It is therefore recommended that the partners obtain legal assistance in this connection.
9. Prepare partnership agreement in duplicate. Each party to the agreement should have a copy signed by both partners.

Form 1 Labor and Management Share

FATHER-SON FARM PARTNERSHIP 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 a partnership for the sole purpose of operating a farm business on the following described real estate:

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

ARTICLE II. Period Covered

This partnership is to start _____, _____, 19____ and
(month) (day)
to continue from year to year on the terms herein stated until the partnership is dissolved or until this agreement is replaced by another written agreement. The partnership 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.

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 equipment, machinery, tools, crops, and 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 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 partner.
-
-
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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. Pay 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, wells, and drains in good condition; fertilizer and lime; 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 mutually agreed necessary for the operation of the farm business.
- B. Pay each partner a monthly wage as agreed upon at the beginning of each fiscal year.

- ARTICLE VI. Financial Settlement

ARTICLE VII. Living Arrangements

ARTICLE VIII. Increases and Decreases in Value of Farm Property

ARTICLE IX.

It is further agreed that

ARTICLE X. Arbitration

If any matter pertaining to the farm business can not 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 on the partners.

_____ FATHER

_____ MOTHER

_____ SON

_____ SON'S WIFE

(Witnesses)

PARTNERSHIP INCOME STATEMENT
(with example)

Item <u>/1</u>	EXAMPLE	Year			
<u>Farm Receipts: /2</u>					
Cash farm receipts.....	\$3,000				
Plus increase or minus decrease in value of farm inventories <u>/3</u>	500	-	-	-	-
Total farm receipts.....	\$3,500				
<u>Farm Expenses: (to be paid out of undivided total farm receipts)</u>					
Hired help (including cash cost of board)...	200				
Purchases of livestock.....	100				
Purchases of machinery and equipment.....	180				
Purchases of feeds, crops, and seeds.....	200				
Taxes.....	70				
Rent for additional land.....	100				
Custom work.....	60				
Repairs on personal property and real estate	150				
Electric lights and power.....	30				
Operating expenses on farm equipment.....	230				
Interest on short term credit.....	20				
Interest on mortgage indebtedness <u>/4</u>	80				
New buildings and real estate improvements..	100				
Total farm expense.....	\$1,520				
Net farm income (total farm receipts less total farm expenses).....	\$1,980				
Less wage for father (\$) and son (\$)...	1,200				
	\$ 780				
Less interest to be paid father for the use of his farm property <u>/5</u>	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, and feeds and supplies.
- ^{/3} See Section D, Article V and Article VIII in Labor and Management Share Agreement.
- ^{/4} 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.
- ^{/5} 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 \$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.)

FATHER-SON FARM PARTNERSHIP 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 a partnership for the sole purpose of operating a farm business on the following described real estate:

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

ARTICLE II. Period Covered

This partnership is to start _____, _____, 19____
(month) (day)
and to continue from year to year on the terms herein stated until the partnership is dissolved or until this agreement is replaced by another written agreement. The partnership 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.

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 to own jointly on 50-50 basis, all of the power equipment, machinery, tools, livestock, crops, and 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 desired) (by either party
 - D. 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 partner.
-
-
-

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. Pay 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, wells, and drains in good condition; fertilizer and lime; 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 mutually agreed necessary for the operation of the farm business.
- B. Pay each partner a monthly wage as agreed upon at the beginning of each fiscal year.

(Form 2 cont.)

- C. 1. Pay the father the difference between _____ per cent of the value of his farm property, used in the farm business /1, and the amount paid as real estate mortgage interest under Section A above.
2. Pay the son _____ per cent of the value of his farm property, used in the farm business /1.
- D. Share on a 50-50 basis any balance remaining after payments and allowances provided in Sections A, B, and C are deducted.

ARTICLE VI. Financial Settlement

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

ARTICLE VII. Living Arrangements

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.

ARTICLE VIII. 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 should 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 should not reflect increases or decreases in market values but should show changes in value due to growth, productivity, or age.

ARTICLE IX.

It is further agreed that _____

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

ARTICLE X. Arbitration

If any matter pertaining to the farm business can not 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 on the partners.

_____ FATHER

_____ MOTHER

_____ SON

_____ SON'S WIFE

_____ (Witnesses)

PARTNERSHIP INCOME STATEMENT
(with example)

Item <u>/1</u>	EXAMPLE	Year			
<u>Farm Receipts:</u> <u>/2</u>					
Cash farm receipts.....	\$3,000				
Plus increase or minus decrease in value of farm inventories <u>/3</u>	500	-	-	-	-
Total farm receipts.....	\$3,500				
<u>Farm Expenses:</u> (to be paid out of undivided total farm receipts)					
Hired help (including cash cost of board)....	200				
Purchases of livestock.....	100				
Purchases of machinery and equipment.....	180				
Purchases of feeds, crops, and seeds.....	200				
Taxes.....	70				
Rent for additional land.....	100				
Custom work.....	60				
Repairs on personal property and real estate	150				
Electric lights and power.....	30				
Operating expenses on farm equipment.....	230				
Interest on short term credit.....	20				
Interest on mortgage indebtedness <u>/4</u>	80				
New buildings and real estate improvements...	100				
Total farm expenses.....	\$1,520				
Net farm income (total farm receipts less total farm expenses).....	\$1,930				
Less wage for father (\$____) and son (\$____)....	1,200				
	\$ 780				
Less interest to be paid father (\$____) and son (\$____) for use of their farm property <u>/5</u>	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 "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, and feeds and supplies.

^{/3} See Article VIII in "Personal Property Share" agreement.

^{/4} 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.

^{/5} 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 \$3,000. This figure times 4 per cent gives \$120. Thus the total interest to be paid father and son is \$400 plus \$120 or \$520.

FATHER-SON FARM PARTNERSHIP 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 a partnership for the sole purpose of operating a farm business on the following described real estate.

_____ owned by father, and
_____ owned by son
situated in the County _____, in the State of _____:
and on any other land which said partners may agree to rent for farming purposes.

ARTICLE II. Period Covered

This partnership is to start _____, _____, 19____
(month) (day)
and to continue from year to year on the terms herein stated until the partnership is dissolved or until this agreement is replaced by another written agreement. The partnership 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.

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 to own jointly on 50-50 basis, all of the power equipment, machinery, tools, livestock, crops, and 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 not
(by either party desired)
- D. 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 partner.

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. Pay 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, wells, and drains in good condition; fertilizer and lime; 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 mutually agreed necessary for the operation of the farm business.
- B. Pay each partner a monthly wage as agreed upon at the beginning of each fiscal year.
- C. 1. Pay the father the difference between _____ per cent of the value of his property, used in the farm business /1, and the amount paid as interest on the father's real estate mortgage indebtedness under Section A above.

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

2. Pay the son the difference between _____ per cent of the value of his property used in the farm business /1, and the amount paid as interest on the son's real estate mortgage indebtedness under Section A above.

- D. Share on a 50-50 basis any balance remaining after payments and allowances provided in Sections A, B, and C are deducted.

ARTICLE VI. Financial Settlement

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

ARTICLE VII. Living Arrangements

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.

ARTICLE VIII. 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 should 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 should not reflect increases or decreases in market values but should show changes in value due to growth, productivity, or age.

ARTICLE IX.

It is further agreed that _____

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

ARTICLE X. Arbitration

If any matter pertaining to the farm business can not 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 on the partners.

_____ FATHER

_____ MOTHER

_____ SON

_____ SON'S WIFE

(Witnesses)

PARTNERSHIP INCOME STATEMENT
(with example)

Item	EXAMPLE	Year			
<u>Farm Receipts:</u> /1					
Cash farm receipts.....	\$3,000				
Plus increase or minus decrease in value of	-	-	-	-	-
farm inventories /2	500				
<u>Total farm receipts.....</u>	<u>\$3,500</u>				
<u>Farm Expenses:</u> (to be paid out of undivided total farm receipts)					
Hired help (including cash cost of board)....	200				
Purchases of livestock.....	100				
Purchases of machinery and equipment.....	180				
Purchases of feeds, crops, and seeds.....	200				
Taxes.....	70				
Rent for additional land.....	100				
Custom work.....	60				
Repairs on personal property and real estate	150				
Electric lights and power.....	30				
Operating expenses on farm equipment.....	230				
Interest on short term credit.....	20				
Interest on father's mortgage indebtedness /3	60				
Interest on son's mortgage indebtedness /3 ..	20				
New buildings and real estate improvements...	100				
<u>Total farm expenses.....</u>	<u>\$1,520</u>				
Net farm income (total farm receipts less total farm expenses).....	\$1,980				
Less wage for father (\$____) and son (\$____)....	1,200				
	\$ 780				
Less interest to be paid father (\$____) and son (\$____) for use of their farm property /4	520				
<u>To be equally divided between father and son....</u>	<u>\$ 260</u>				

- /1 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, and feeds and supplies.
- /2 See Article VIII 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.)