

**20. Farming: The Next Generation  
(Making Transition Actually Happen)**

**Kent Miller**

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*Kent Miller serves as an extension agricultural economist with KSU Farm Management Assoc SE at Winfield, KS. He has worked with 130 farms in four southeast counties for over 27 years. A native Kansan, he received a B.S. Degree in agricultural economics with a double major in accounting from Oklahoma State University in 1980. Kent is a Certified Public Accountant and his experience includes 3 years with an international accounting firm.*

**Abstract/Summary**

*This session will review the "nuts and bolts" of bringing another generation into the active management and ownership of a farming operation. Employment agreements, stock options, buy-sell agreements, and entity operating agreements will be reviewed to give the operators an idea of strategies to use. A case study farm will be offered to review a common farming scenario.*

# Employment Agreement

## Cowley Farms Inc.

This agreement is made this 1 day of January, 2010, by and between Grandson Cowley, hereinafter "employee" and Cowley Farms Inc., hereinafter "employer".

This agreement is effective for a term of one year; however it shall be automatically renewed from year to year unless written notice of termination is given by either party by October 1 of the final year of the contract.

Employee shall receive a base cash wage of \$ 50,000 per year, payable on a monthly basis. Employee is expected to provide 1/3 of the management of Cowley Farms, Inc., and make a reasonable labor contribution to the operation of the corporation.

Employee shall have 15 days of paid vacation per year, with the option of taking a full two weeks away from the farming operation at his discretion, provided it is not at a peak work time.

### **BONUS**

It is agreed that the employee shall receive a bonus equal to 1/3 of the following calculation, hereinafter called the profit sharing amount:

2010 net accrual farm income as compiled by KS Farm Management SE printouts, less a 4% charge on fair market value of capital as of January 1 of each contract year. If this amount is a loss, then no bonus is payable and the loss amount will carry forward to reduce the bonus calculation for the following years.

In subsequent years, the bonus calculation will equal 33.3% less the actual stock ownership percentage of the employee at the start of each year. For example, if the employee owns 10 % of the corporate stock, then his bonus will be based on 23.3% of the profit sharing amount.

Bonus is payable by May 15 of the year following the contract year, and may be paid by commodities in lieu of wages or cash at the discretion of the employer.

It is understood that the employee shall use said bonus to purchase newly issued stock in Cowley Farms Inc., after an allowance for income tax withholding is made. Stock purchased by employee by May 15 of each year will considered purchased as of January 1 of said year.

For years after 2010, the 2010 and future year's bonus and any cash dividends taken by the shareholders by May 15 will reduce the beginning capital amount that draws the 4% charge on capital used.

This agreement shall be binding upon the parties hereto, their heirs, devisees, legatees, executors, administrators, trustees, and assigns.

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Grandson Cowley, Employee

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Grandpa Cowley, President

Cowley Farms Inc., Employer