

Cultivating Connections Conference
Case Study
Factual Background

John was a lifelong dairy farmer in Ohio. John established his transition plan when he was 75 years old and died when he was 80 years old. The following are the facts related to John:

Family

- John is married to Susan, a second marriage for both. They have been married for 20 years.
- Susan is 10 years younger than John.
- John has one son, Jeff, who will take over the farming operation.
- John has two daughters, Jane and Jill, neither of whom are involved in the farming operation.
- Susan has two children, Darla and Ezra, neither of whom are involved in the farming operation.
- John and Susan have no children together.
- John and Susan live on the farm, next to the dairy facilities.
- Jeff has three children. Andrea and Bill are adult children who worked on the dairy. Jeff's third child, Charlie, is 5 years old and John is fond of Charlie.

Family Dynamics

- John and Jeff have a fragile relationship. John is the general manager of the farm and makes most decisions regarding the dairy. Jeff is mostly responsible for crops and repairs/maintenance.
- John and Jeff do not talk much but are not outwardly hostile to each other. They act respectful towards each other.
- Jeff's two children, Andrea and Bill, were employees of the farming operation. However, Andrea/Bill and John could not get along. Andrea and Bill quit working at the farm. John is very hurt by Andrea and Bill's actions and does not want them to have any of his assets.
- John gets along well with his two daughters.
- Susan gets along with John's children but does clash with Jeff occasionally. Susan often serves as a mediator between John and Jeff.
- Susan's daughter, Darla, is an attorney. John has a lot of respect for Darla. Susan's son, Ezra, is special needs and lives with John and Susan.

Business Structure

- John and Jeff are equal, co-owners of Dairy LLC and Land LLC 1.
 - Dairy LLC owns cows, equipment and facilities.
 - Land LLC 1 owns 600 acres.
- Land LLC 2 owns about 500 acres. This LLC was established for gifting purposes for John's daughters. John made one round of gifting then stopped. Current ownership of the LLC is John 98% and two daughters 1% each.
- John and Susan own 500 acres jointly.
- John owns 200 acres individually.
- The house John and Susan live in is owned by Land LLC 1.

Debt

- The farm struggled financially for a few years. The source of the struggle was mostly due to the cost of an expansion (new free stall barn) without being able to increase cow numbers fast enough.
- The farm has total debt of about \$4 million.
 - About ½ the land is used as collateral for the loan. Some encumbered parcels are in Land LLC 1, Land LLC 2, owned jointly by John and Susan and owned by John. There is no clear pattern as to which parcels are encumbered.
 - Lender has a lien on cattle, equipment and milk.
 - The notes are 15 years with 10 years remaining.
- John and Susan recognize the debt could be a big problem when John dies. If Jeff cannot keep the dairy going or does not want to, how will debt be paid? Which parcels will be sold to pay debt?

Assets

- See attached balance sheet.

Susan's Situation

- Susan worked for 30 years and is now retired. She has retirement income of about \$50,000/year.
- If Jim dies first, Susan will likely move off the farm.
- Susan has helped on the farm and helped John manage the farm. However, she has no interest in being involved with the farm without John.

John and Susan's Goals

- Both want Jeff to continue the farming operation but are not sure if he can manage the farm, especially the dairy.
- John had originally intended to give his ½ of Dairy LLC and Land LLC 1 to Jeff, outright. However, after Andrea and Bill left the farm, John is adamant that he does not want them inheriting his ½ of the entities through Jeff. So, John is reluctant to let Jeff inherit his ½ of the entities outright.
- Land LLC 2 will go to John's two daughters, outright. John would like for Jeff to have the opportunity to farm the land as the land is important to the dairy operation.
- The jointly owned land will go to the survivor of John and Susan. Then ½ to John's daughters and ½ to Susan's children.
- John's land will go to Sherry if she survives and then one parcel to Darla and one parcel to Land LLC 1.
- All non-farm assets to John and Susan's children equally.

Ethical issues:

1. When John and Susan met with Attorney, they did not always agree on what their plan should be. Ultimately they did agree but what if they were not able to agree? Must the attorney withdraw from working with either? How can the attorney address this?
2. After Land LLC 2 was distributed to the two daughters, they asked Attorney to update the LLC operating agreement. When asked, Attorney was still working on the estate administration. Is Attorney permitted to work with the daughters? Should Attorney work with the daughters?
3. During the estate administration, Susan asked Attorney about management and tax issues related to the Dairy LLC. Can Attorney give counsel related to Dairy LLC while it is in the estate administration process?
4. John/Susan did not feel comfortable with having any of John's children be the trustee of the trust. They named Attorney and Susan's daughter, also an attorney, as the trustees. Does this cause any conflict for Attorney? What ethical issues arise, if any, when the attorney who drafted the trust, is being paid to do the trust administration is also a trustee?
5. What if Attorney was also Jeff's attorney. Can Attorney make changes to John/Susan's trusts that negatively impact Jeff?

**Smith Case Study
Balance Sheet for John**

Assets

Bank Accounts (3)	\$20,200
Joint Bank Account	\$4,000 (John's 50%)
Life Insurance	\$750,000
Vehicles	\$89,000
Dairy LLC	\$860,101 (John's 50%)
Land LLC 1	\$961,733
Land LLC 2	\$1,680,700
200 acres	\$1,300,000
630 acres jointly owned	\$1,600,000 (John's 50%)

Debts

Consolidated Farm Loan	\$2,000,000 (John's 50% included in entities)
Machinery Loans	\$163,088 (John's 50% included in Dairy LLC)

Net Worth \$7,246,733

Family Structure:

