



CASE STUDY I

FRESH RUN FARM AND THE COLLEGE OF MARIN IN CALIFORNIA: A REGISTERED APPRENTICESHIP PROGRAM WITH THE DIVISION OF APPRENTICESHIP STANDARDS, UNDER THE CALIFORNIA DEPARTMENT OF INDUSTRIAL RELATIONS

Peter Martinelli of Fresh Run Farm in Bolinas, California, in collaboration with the College of Marin, California, run an apprenticeship program that is registered with the California Department of Industrial Relations Division of Apprenticeship Standards (DAS). The program provides students with a combination of instruction in the classroom and instruction with experience on a farm in a paid position working alongside the farm operator. Students can apply to work on Farmer Martinelli's farm after the completion of a 2-year certificate program in Sustainable Horticulture from the College of Marin.

MAJOR PROGRAM ELEMENTS

- There are two primary types of DAS apprenticeship programs: *Plant Standard and Unilateral*. A Plant Standard DAS program is composed of a single employer in collaboration with a local educational institution (LEA). A Unilateral Apprenticeship Program, (commonly referred to as UAC,) is comprised when a group or association of non-union employers forms a program with an LEA. The Fresh Run Farm-College of Marin program is a Plant Standard program in which the College provides 11 organic agriculture-related courses at the college. Students enroll in the certificate program in Sustainable Horticulture and take classes for approximately two years; when they complete the program they are eligible to apply for the on-farm apprenticeship component of the program.
- Farmer Peter Martinelli, of Fresh Run Farm, provides the on-farm hands-on apprenticeship component of the program. Apprentices are paid for their work on the farm

during this two-year apprenticeship, ramping up at six month intervals to reach the journeyman's wage. The journeyman's wage was established by the DAS especially for this program. It is currently \$12.00 per hour.

- Apprentices in this program are on probation for the first three weeks of the program to ensure that individuals are able to meet the commitment. All apprentices sign an Apprenticeship Agreement with the farm that details their responsibilities, which is filed with the California Apprenticeship Council. During the probation period, the farmer can cancel that agreement at any time. After the three-week probation period, only the DAS can cancel the apprenticeship agreement with the individual. Fresh Run Farm provides workers' compensation insurance for apprentices.
- The DAS plays a key role in this program; they work with the farmer-employer to set up standards for the program and monitor that those standards are being met. The DAS also receives and catalogues the Apprenticeship Agreement, which serves as the apprentice's contract during their time in the program.

COSTS AND LEGAL CONSIDERATIONS

Students enroll as part-time or full time students in the Sustainable Horticulture program at the College of Marin and pay all fees that are associated with that course of study. There are scholarships and financial aid packages available through the community college system.

As a registered training program with the California Department of Industrial Relations (also known as the

¹ For more information on the DAS and their registered apprenticeship programs, please refer to Fact Sheet 1 of this series found on our website www.californiafarmlink.org.





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California Labor Department), this program is exempt from the California minimum wage law. It is the only arrangement of this kind within the Department of Industrial Relations. Most DAS apprenticeship programs pay wages that are substantially higher than minimum wage, reflecting expected wage levels for professions such as electrician and plumber. The apprenticeship wages on Fresh Run Farm starts at \$7.20 per hour; after six months, the wage progresses to \$8.40 per hour for the next six months. In the third six-month period the wage rises to \$9.60 per hour, and in the fourth six-month period, the wage is \$10.80 per hour. Should the apprentice graduate from the program after two years and continue to work on the farm, he or she would be paid the full journeyman's wage of \$12.00 per hour.

BENEFITS OF A DAS CERTIFIED APPRENTICESHIP

A DAS certified apprenticeship may give a farmer the confidence to know they are within the law when it comes to their apprenticeship program. The in-depth relationship with an LEA may also strengthen the educational experience for apprentices. As apprentices complete a rigorous course of study at the College before going to work on the farm, the farmer knows that students are motivated enough to complete those requirements, and that they have substantial training in horticulture before they arrive on the farm.

Though there is clearly much planning and forethought that go into establishing a DAS apprenticeship program, there are resources that may support that development and infrastructure, including DAS and LEA staff. There is also the possibility of apprentices' wages being offset by the Employment Training Panel (see Fact Sheet 2, in this same series), a state-run organization that compensates employers for work-place training conducted through a DAS Certified Apprenticeship.



SOURCES

Division of Apprenticeship Standards (DAS)
Website <http://www.dir.ca.gov/das/das.html>
Kelly Mackey, author of DAS Plant Standard for
Marin College Apprenticeship Program
Peter Martinelli, farmer



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CASE STUDY 2

ROGUE FARM CORPS IN OREGON: FARMS NEXT, A COLLABORATIVE MENTORSHIP PROGRAM WITH A NON-PROFIT ORGANIZATION, FARMERS, AND COOPERATIVE EXTENSION

Rogue Farm Corps (RFC), a nonprofit organization located in southern Oregon, has developed a successful multi-farm educational program in collaboration with Oregon Cooperative Extension, called *Farms Next* over the last ten years. The non-profit provides the educational structure and administrative support, and the participating farmers provide the hands-on learning experience and mentoring for people who want to learn to farm.

The program combines up to 1,500 hours of field training with a host mentor farmer, 75 hours of classroom learning with agricultural professionals and expert farmers at Oregon State University (OSU), 15 tours of local farms, a student-customized learning plan, and opportunities for farm-based independent study on a diverse network of commercial family farms in Oregon's scenic Rogue Valley. This is a tuition-based educational program, and the student/mentee earns a certificate from RFC at the end of the program. Farmers are required to adhere to mentorship guidelines developed in partnership with Rogue Farm Corps.

MAJOR PROGRAM ELEMENTS

• Field-Based Training and On-Farm Work Experience

Students live on the farm and work with the host farmer/mentor independently for 30 to 40 hours per week to develop skills and accomplish the daily tasks of farm work. These tasks vary according to each host farm. RFC's Education Director helps place students and conducts evaluations with each farmer/mentor and each student three times throughout the season to ensure that the education and training goals are being met and agreements are honored. Students keep a weekly journal of their learning experiences.

• Practical Skills Classes

Classes take place weekly at the beginning of the season, and two to three times per month later in the season. Students in the program join other students in the OSU Extension *Growing Agripreneurs* program, attending classes and lectures taught by agricultural professionals and expert farmers and scientists. Some classes are held in a traditional classroom setting, while others are held in the field.

Students are then provided with a skill-based training curriculum unique to their host farm site. Host farmers offer close supervision and consistent mentoring to promote mastery of the basic skills needed to operate their farm.

• Farm Tours

Students have the opportunity to meet, observe, learn, and work with other farmers in the Rogue Valley two to three times per month throughout the season. Farmers lead the farm tours and leave time for questions, discussions, and demonstrations.

• Discussion Circles and Potlucks

Four to five times throughout the farming season, approximately once a month, RFC holds informal discussion circles and potlucks on topics such as food and farm advocacy, agricultural politics, rural living, and natural building.

• Independent Study

RFC's Education Director works with each individual student and host farmer to co-create mutually beneficial independent study projects to be accomplished





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throughout the season. Independent study can include hands-on projects and research opportunities.

• Credits through Rogue Community College (Optional)

In the past Rogue Farm corps had a direct relationship with Rogue Community College, in order to cover students for workers' compensation and to provide college credit to the students for their time with RFC. Due to the lack of alignment of the academic calendar with the farming season, and the fact that most individuals who apply for the RFC program already have college degrees and are not seeking to gain additional college credits, RFC has decided to make college credits through Rogue Community College optional rather than compulsory for students in RFC.

• Program Time Frame

The program begins between February and May and ends between October and November of the same calendar year. Students must stay a minimum of three months but no longer than nine months.

COSTS AND LEGAL CONSIDERATIONS

RFC charges a tuition rate of \$1,500 for participation in the program. Room and board specifications vary from farm to farm, but housing and staple foods are ensured by the program.

Apprentices receive a stipend of \$400 to \$600 per month from their host farm. Because students are participating in a rigorous educational program through RFC, they are not considered to be employees under Federal minimum wage law. Therefore neither their stipend, nor the room and board, are considered wages, so farmers are not responsible for taxes on these provisions. Since the farmer is controlling the activities of the student as well as compensating them through the stipend, the students are considered to be employees under Oregon's workers compensation law, and RFC requires farmers to hold workers' compensation coverage for the students.

Farmers pay Rogue Farm Corps \$1,000 per season to participate in the program.

BENEFITS FOR FARMERS

This multi-farm and non-profit collaborative structure for mentorships provides a centralized system for the listing, application, and screening process for all of the farms, reducing the initial screening and communication burden for farmers. Farmers make the final decision about the student who will be placed with them for the season.



SOURCES

Farms Next page on Rogue Farm Corps website:

http://roguefarmcorps.org/?page_id=43

OSU Small Farms website:

<http://smallfarms.oregonstate.edu/SmallAgripreneurs>,

Executive Director, Stu O'Neill Rogue Farm Corps



This project was funded by the Risk Management Agency. For more information, and other Fact Sheets and Case Studies in the Apprenticeship Resources Series, please visit www.californiafarmlink.org



CASE STUDY 3

FULL BELLY FARM EMPLOYEE/INTERNSHIP PROGRAM CAPAY VALLEY, CALIFORNIA

Full Belly Farm is a 350-acre certified organic farm located in the Capay Valley of Northern California. Full Belly has run an on-farm internship program every year since their inception in 1985. In 2012 they received approximately 500 applications for only five intern spots. Full Belly has trained many farmers who have gone on to run their own successful farming businesses. Several years ago, Full Belly transitioned from paying interns stipends plus room and board, to hiring them as employees. In addition to assuring that the internships comply with California and federal minimum wage law, the transition has helped both the farm and the interns to clarify their roles and responsibilities within the agreement.

MAJOR PROGRAM ELEMENTS

- Field based training and on-farm work experience are the key components of the program. Interns work alongside the farmers and other permanent employees, learning every aspect of the farm over the course of the year. Each intern rotates through field crop production, orchard management, greenhouses, livestock handling, farmers' markets, deliveries, consumer relations, and bookkeeping, among other activities and skills.
- Apprentices attend monthly seminars on specific topics.
- Full Belly hires interns on a rolling basis throughout the year. Interns are asked to make commitment for a

minimum of one full year. Many stay for two or three seasons in order to fully comprehend the Full Belly farming systems and gain valuable experience.

COSTS AND LEGAL CONSIDERATIONS

The Full Belly Farm internship program is in full compliance with California labor law. Interns are hired at minimum wage—currently \$8.00 per hour.

Full Belly provides housing and food for interns during their employment with the farm. The farm uses formulas provided in California Employer's Guide, published by the Employment Development Department of the State of California, to determine the amount of money they can legally subtract from an employee's wages, before payroll tax, for the food and lodging received by the employee. The California Employer's Guide, which can be downloaded at www.edd.ca.gov/pdf_pub_ctr/de44.pdf, provides a rubric for the amount that can be subtracted per meal, and a formula to determine the amount that can be subtracted for housing, based on a percent of market value. Full Belly farm also provides Workers' Compensation insurance for all of their employees, including apprentices.

When interviewed, farm co-owner Dru Rivers spoke to the satisfaction of training the next generation of growers through their apprenticeship program.



CASE STUDY 3

FULL BELLY FARM EMPLOYEE/INTERNSHIP PROGRAM

CAPAY VALLEY, CALIFORNIA

BENEFITS FOR FARMERS

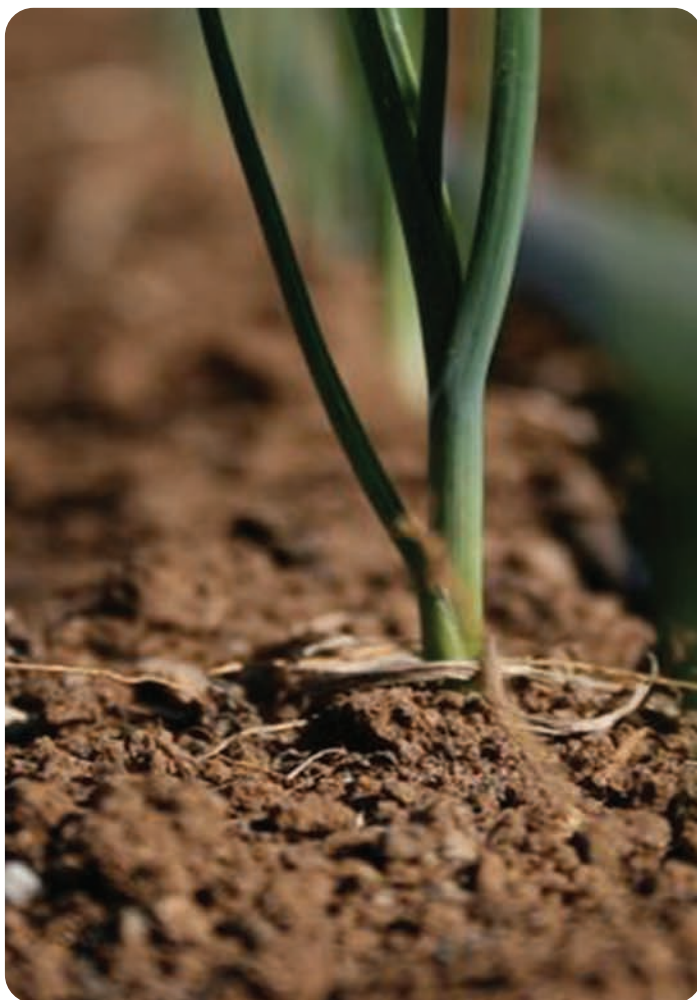
The primary benefit for farmers of hiring apprentices or interns as employees is that it eliminates any issues or potential issues regarding violations of the minimum wage law. Farmers who treat apprentices and interns as employees do not need to create a formal training curriculum, but certainly may do so, and do not need to meet the criteria established by the U.S. Department of Labor under the Fair Labor Standards Act (FLSA) that determine valid unpaid internship status. Experienced farmers can train new and aspiring farmers with full confidence that they are in compliance with state and national labor regulations.

SOURCES

Dru Rivers, Full Belly Co-owner



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FACT SHEET I

STRUCTURING A REGISTERED APPRENTICESHIP PROGRAM WITH THE DIVISION OF APPRENTICESHIP STANDARDS OF CALIFORNIA (DAS)

WHAT IS THE DAS?

The Division of Apprenticeship Standards (DAS) is a state government agency under the California Department of Industrial Relations (CDIR), also known as the Labor Department. The mission of the DAS is to “create opportunities for Californians to gain employable lifetime skills and provide employers with a highly skilled and experienced workforce while strengthening California's economy.” The DAS currently oversees 500 apprenticeship programs around the state in skilled labor sectors such as plumbing, electrical, and tile laying, and in March of 2011 approved the first farm-based apprenticeship program.

COMPONENTS OF A DAS APPRENTICESHIP

DAS apprenticeships combine two major components: classroom instruction, and hands-on learning. DAS apprenticeship programs are required to collaborate with a local educational agency (LEA). These include accredited educational institutions like community colleges, adult schools, and technical schools. The schools provide the classroom portion of the training, while the employer provides the hands-on component.

The DAS plays a key role in these programs; they work with the employer to set up standards for the program and in turn monitor that those standards are being met. The DAS also receives and catalogues the apprentice's contract for the program, called the Apprenticeship Agreement.

There are two primary types of DAS apprenticeship programs: Plant Standard and Unilateral. A Plant Standard DAS program is composed of a single employer in collaboration with an LEA. A Unilateral Apprenticeship Program, commonly referred to as UAC, is comprised when a group or association of non-union employers forms a program with an LEA.

Apprentices in DAS registered programs are paid for their work; most registered apprenticeship programs pay wages that are higher than minimum wage.

The Fresh Run Farms--College of Marin in California Currently the only farm-based DAS apprenticeship is at Fresh Run Farm in Bolinas, Marin County. Farmer Peter Martinelli collaborates with the College of Marin to offer a joint Plant Standard program that includes 11 related courses at the college and 1,800 hours of paid hands-on training at the farm. Participants are eligible to apply for the on-farm apprenticeship part of the program as they take classes or after completion of the proscribed courses of study at the College. The on-farm apprenticeship takes two years to complete. Apprentices are paid for their work on the farm during this two year apprenticeship, ramping up in six months intervals to a journeyman's wage. Wages start at \$7.20 per hour for the first six-month period, then progress to \$8.40 per hour for the next six-month period. In the third six-month period wages are \$9.60 per hour and increase to \$10.80 per hour for the fourth six-month period. Should the apprentice graduate the program after two years and continue to work on the farm, they would then be paid the full journeyman's wage, which is currently \$12.00/hour.

Note: As described above, most apprentices in registered apprenticeship programs receive a wage that is higher than minimum wage. The DAS granted an exemption to minimum wage law in the Fresh Run Farm – Marin College apprenticeship program in recognition of the fact that wages for agricultural workers are generally far lower than in other sectors that the DAS traditionally works with. It is not yet known if the DAS would make another exception within the agricultural sector.



FACT SHEET I

STRUCTURING A REGISTERED APPRENTICESHIP PROGRAM WITH THE DIVISION OF APPRENTICESHIP STANDARDS OF CALIFORNIA (DAS)

For the first three weeks of the program apprentices are in a probation period to ensure that individuals are ready for the commitment. All apprentices sign a formal apprenticeship agreement with the farm outlining their responsibilities, which is filed with the California Apprenticeship Council, under the DAS. During the probation period, the farmer can cancel the agreement at any time. After the agreement is signed the DAS is the only entity that can cancel the apprenticeship agreement with the individual. (For more information, see in the Case Study series that is complementary to the Fact Sheet series which can be found on our website www.californiafarmlink.org.)

BENEFITS OF A DAS CERTIFIED FARM APPRENTICESHIP

The structure and required formalization of agreements under a DAS certified apprenticeship may contribute to successes in employer-apprentice relationships and accomplishments, and may give a farmer the confidence to know they are within the law when operating an apprenticeship program. In-depth courses at an educational institution may strengthen the educational experience for apprentices. Though there is clearly much planning and forethought required of the farmer to establish a DAS apprenticeship program, there are resources that may support that development and infrastructure. These include the help of DAS and LEA staff and the possibility of apprentices' wages being offset by the Employment Training Panel, a state-run organization that compensates employers for work-place training conducted through a DAS Certified Apprenticeship.

The Fresh Run Farm--College of Marin apprenticeship program has garnered significant positive press and public support, and, according to Kelly Mackey, the DAS personnel who was responsible for writing the program, the DAS is open to creating other registered apprenticeship programs with farmers around California.



SOURCES

Division of Apprenticeship Standards

<http://www.dir.ca.gov/das/das.html>

Kelly Mackey, author of DAS Plant Standard for Marin College Apprenticeship program



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FACT SHEET 2

GETTING FUNDING FOR YOUR APPRENTICESHIP PROGRAM FROM THE CALIFORNIA EMPLOYMENT TRAINING PANEL (ETP)

WHAT IS THE ETP?

The California Employment Training Panel (ETP) is a state agency that provides funding to California businesses to support customized worker training. ETP's purpose is to provide workers with training that leads to secure jobs that pay good wages, as well as to assist employers in competing, and help employers offset the costs of job skills training. Though the ETP does not currently have any programs working with farmers training farmers, the agency is interested in doing so.

The ETP is governed by an eight member panel; seven are appointed by the Governor and the Assembly and Senate leadership. The ETP program is funded entirely by California employers through the Employment Training Tax, and receives no General Fund support. The program is performance-based, providing funds to trainers for trainees who successfully complete training and are retained in good-paying jobs at or above a required wage base for a specific period of time. Since its inception in 1983, ETP has provided approximately \$1.25 billion for training over 800,000 workers in 78,000 businesses. Employers must match training funds awarded by ETP for training existing workers. The program prioritizes working with small businesses and employers in high unemployment areas of the state.

COMPONENTS OF AN ETP CONTRACT

In order to qualify for ETP funding, an apprenticeship program must be registered with the Division of Apprenticeship Standards (See Fact Sheet #1 in this series, which can be found on our website www.californiafarmlink.org). Applicants can be small businesses, including an individual farmer, and eligible institutions, which can include groups of employers, trade associations, universities, community colleges, adult schools, and certified training agencies. Together, the business and the educational institution form a Joint Apprenticeship Training Committee (JATC) which must be approved by the Division of Apprenticeship Standards.

Applications for the ETP program are accepted on an ongoing basis. It generally takes 2 – 3 months for a training agreement to be set up with the ETP, which must be in place before training can begin. Training entities are reimbursed for direct training costs. Involving an institution may be advantageous for a farmer, as the institution may be able to take care of paperwork and advance the training funds to the farmer.

Just as with all DAS registered apprenticeships, an established curriculum must be followed and the number of hours spent on different subject matters must be documented. A trainer, which can include a manager, supervisor, or crew leader, must be present during documented hours.



FACT SHEET 2

GETTING FUNDING FOR YOUR APPRENTICESHIP PROGRAM FROM THE CALIFORNIA EMPLOYMENT TRAINING PANEL (ETP)

There is a 90-day job retention period for the trainee that is required immediately following training. The ETP currently mandates that post-training wages, following the 90-day retention period, must be above the ETP minimum wage, which is higher than the State minimum wage. The wage rates vary by county, and are contained in a wage chart that the ETP provides.

The trainer reimbursement rate for ETP-funded apprenticeship program is currently \$13.00 per training hour. Courses that are not part of the DAS curriculum can still be funded by ETP as part of ancillary training with justification from the Joint Apprenticeship Training Committee.

BENEFITS OF ETP- FUNDED TRAINING PROGRAMS

The ETP is set up to provide adequate resources for employers to invest in the training of future workers for the state of California. If a farmer is considering starting a DAS registered apprenticeship program on their farm, ETP funding may be one creative avenue to offset the costs of paying to train unskilled workers to learn on the farm.



SOURCES

California Employment Training Panel Website:

<http://www.etp.ca.gov>

Apprenticeship Guidelines from ETP:

http://www.etp.ca.gov/docs/Apprenticeship_Pilot_Summary.pdf

Employment Training Panel Press Release:

http://www.labor.ca.gov/pdf/March_2013_Press_Release.pdf



This project was funded by the Risk Management Agency. For more information, and other Fact Sheets and Case Studies in the Apprenticeship Resource Series, please visit www.californiafarmlink.org

FACT SHEET 3

LEASE MODEL

HOW DOES THE LEASE MODEL WORK?

In this system there are two separate farm businesses. One is owned by an experienced farmer, who serves as both landlord and mentor and one is owned by a beginner farmer, who leases land and is mentored by the more experience farmer.

HOW TO SET UP THE LEASE MODEL ON YOUR FARM

- A clear lease agreement: the two parties must draw a map of the property and indicate what land is to be leased, the lease rate and terms, and any common areas the lessee can access. California FarmLink provides basic sample lease templates and technical assistance to adapt a lease to your specific situation.
- The two parties must agree on inputs and supplies. The beginning farmer could purchase everything entirely on their own, but more likely would buy some inputs from the lessor. The beginning farmer will need to maintain a full set of records including receipts for all inputs to document their own business expenses in order to fill out their own income tax returns for farming at year-end. Questions to consider regarding the purchase of inputs include: Will the farmer sell at cost? And, how often will the lessee reimburse the lessor?
- There needs to be a clear written agreement regarding equipment, water and utilities. Equipment questions to consider include: Will the beginning farmer lease equip-

ment from the mentor farmer, and if so under what terms? Which equipment is available when? How will fuel and maintenance expenses be tracked? What happens if the beginning farmer breaks something? As for water and utilities, a simple way of sharing these expenses should be identified and included in the written agreement.

- If the mentor farmer plans to purchase product from the lessee to integrate into existing sales channels such as a subscription program (Community Supported Agriculture), farmers' market or wholesale accounts, this may be addressed in the agreement.

OPTIONS FOR THIS ARE:

- a) Purchasing the products from the lessee. At what price? How much?
 - b) Separate sales, in this instance the lessee may use the packing house and may transport product with the lessor's product, but the sales are separate.
- With all of the above in place it should be relatively easy to write a summary agreement stating the amount of rent to be paid for land and equipment usage and the agreement regarding supplies. Attach the other documents to the summary agreement.

The beginning farmer is now a farmer. The first thing she or he should do is open a business checking account and set up a bookkeeping system.

¹ The new draft food safety regulations issued by the United States Food and Drug Administration include rules regarding shared use of packing facilities. Depending on the size of the lessor and on the final wording of the rule, it may be cost prohibitive for the lessor to purchase the lessee's products. For more information go to <http://www.fda.gov/Food/GuidanceRegulation/FSMA/default.htm>



FACT SHEET 3

LEASE MODEL

Remember, one of the best advantages to the beginning farmer is learning how to keep a full set of financial records (called “books”) for a farm and how to file a farm tax return. This is not a good model for someone who is not yet ready to take on this aspect of farming.

DIFFERENTIATION FROM INCUBATOR PROGRAMS

The lease-model is similar to some incubator programs around the country. The main difference is that most incubator programs are run by not-for-profit entities. Typically incubator programs require a beginning farmer to go through an apprenticeship program before they are given the opportunity to lease land in the incubator program. In a private model the farmer would offer a lease option to someone who had already worked on the farm for some time to establish credibility and compatibility.

BENEFITS

This system holds multiple benefits for both the farmer and the beginner farmer. First the farmer gets the benefits of mentoring a novice farmer while at the same time avoiding many of the risks associated with running a traditional farm apprenticeship program. It may also be an opportunity to create new income stream for farmers that are willing to mentor beginner farmers.

Beginner farmers benefit because running their own mini-operation under the mentorship of a more experienced farmer is an intermediary step between simply working on a farm and running a farm. The beginning farmer will have to keep a full set of financial records, and will file a Schedule F reporting farm income and expense as part of her or his income tax returns. This Schedule F will help the beginning farmer to apply for farm loans in the future as it will establish that they have had full managerial responsibility for a farm. Several farmers have created this type of lease-model mentorship in the hopes of training farmers who might one day partner or take over part or all of their farming operation.



SOURCES

Original concept developers: Poppy Davis, CPA and specialist in agricultural micro-economics in the public interest; and Neil Hamilton, Dwight Opperman Distinguished Professor and Director of the Agricultural Law Center at Drake University Law School.



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FACT SHEET 4

CREATE A SECOND BUSINESS: A FARM SCHOOL

The key to this model is keeping a full set of accounting records for two separate businesses: a farm and a farm school. The farm would operate as a normal farm business, and the farm school would operate as a for-profit educational center for training farmers. There should be a separate checking account for each and the bookkeeper should be careful to write and record activities separately for the two businesses. There will be shared expenses. A filed memo should explain clearly which expenses are “farm school” which are “farm” and which are “shared.” For shared expenses one or the other of the two businesses can pay all the expenses during the year and at the end of the year the other business can write a reimbursement check. The school will also need to have a separate written agreement with the farm explaining under what circumstances the students are on the farm, and explaining what services the farmer will provide (i.e. access to viewing and participating in daily activities and instruction) and stating the fee the school will pay the farm for services rendered.

Below are critical documents you will need to establish the relationship between the two businesses:

- 1) Two separate checking accounts;
- 2) Two separate sets of books to record income and expenses (in QuickBooks this is two separate companies);
- 3) A memo clearly explaining how the two businesses work together, which entity will pay the “shared” expenses during the year and how often the other entity will reimburse the first entity for shared expenses;
- 4) A calculation of how shared expenses (such as utilities, office or kitchen supplies and road maintenance) are allocated between the two businesses;
- 5) An agreement for the school to pay the farm for access and instruction and how much the farm school pays to the farm for use of the farm as a teaching site;
- 6) Records of actual transfers of money as described in the agreements above;
- 7) Annual income tax returns which report farming income and expense separately from teaching income and expense. For a sole proprietor this will mean a Schedule F and a Schedule C. For a Partnership or an S-Corp this will mean the teaching income is reported as ordinary income and expense and the farm income is reported on a Schedule F.



FACT SHEET 4

CREATE A SECOND BUSINESS: A FARM SCHOOL

There are a few different variations on how the money can flow:

- 1) Apprentices pay tuition and perform no labor outside of the labor that is integral to learning.
- 2) Apprentices pay tuition to the school and are also hired by the farm to perform labor on the farm – these amounts do not have to cancel each other out. Regardless of whether tuition is more than wages paid or vice-versa, the critical component is that each step must actually happen separately and be recorded separately. The student needs to actually pay tuition and the farm needs to actually pay wages – including all associated payroll taxes and all associated reporting requirements.

One alternate possibility is for the Farm School to be operated by a non-profit organization or educational institution. In this case there is a service agreement as described above and the farmer simply receives a payment for services rendered. The farmer would report this as “other farm income” on Schedule F of the annual income tax return.



SOURCES

Original concept developers: Poppy Davis, CPA and specialist in agricultural micro-economics in the public interest; and Neil Hamilton, Dwight Opperman Distinguished Professor and Director of the Agricultural Law Center at Drake University Law School.



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