

## Reinvest, Revolve or Refund

**Phil Kenkel**

**Bill Fitzwater Cooperative Chair**

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Corn Soy Cooperative is a large, diversified grain and farm supply cooperative with 15 locations and over 1,500 members. The cooperative has no long term debt which is a source of pride for the board. The cooperative maintains a seasonal loan of over \$4M. The cooperative has had a profitable year with a profit before patronage of \$1.2M. The cooperative has always paid at least 35% cash patronage. Because many producers struggled with low yields and weather issues there is pressure among the board members to increase the percentage of cash patronage to 50%. Like many cooperatives, Corn Soy has numerous needs to replace and upgrade rolling stock and infrastructure. The manger has asked for a fixed asset replacement budget of \$700,000 in order for the cooperative to hit their fixed asset growth rate goal of 5%. The board has a goal of keeping the equity retirement program on a 15 year or shorter rotation. The CFO forecasts that it will take an equity retirement budget of \$250,000 to maintain that cycle.

At a recent strategic planning session the cooperative established financial goals which included keeping the equity/asset ratio above 65% and maintaining a budgeted annual cash flow of \$250,000. The cooperative's lender has suggested a working capital goal of \$5.6M. The manager has prepared projected income statements and balance sheet. At the projected level of sales and expenses and the desired 50% cash patronage and anticipated equity retirement budget of \$250,000 and fixed asset budget of \$700,000 the projected cash flow is \$174,00, which is obviously below the goal of \$250,000. Assuming no change in inventory, accounts receivable or the seasonal loan, the projected working capital is 5,515,263 which is also below the goal of \$5.6M.

As this board meeting you need to make a number of inter-related financial decisions. You need to set the cash patronage percentage, establish a fixed asset replacement budget, and establish an equity retirement budget. You can also authorize additional long term or authorize reducing or increasing the seasonal debt. Your goals are to achieve \$5.6M of working capital, keep equity/assets at or above 65%, achieve \$250,000 of cash flow. You are mindful of the very real needs to grow fixed assets at a 5% rate and maintain an equity revolving period of 15 years or less. You obviously want to make those decisions in the context of balance sheet management.

### Summary of decisions

Cash patronage percentage \_\_\_\_\_%

Fixed asset budget \_\_\_\_\_\$

Equity retirement budget \_\_\_\_\_\$

Additional long term borrowing \_\_\_\_\_\$

Addition or reduction in

Seasonal borrowing \_\_\_\_\_\$ (show with + or -)

**PROJECTED INCOME STATEMENT**

**Gross Sales**

	\$	
Grain	206,769,671	
	\$	
Petroleum	18,629,761	
	\$	
Agronomy	16,908,155	
Feed	\$ 1,546,054	
	\$	
	243,853,641	

**Margin Percentage**

Grain	3.0%
Petroleum	4.0%
Agronomy	3.5%
Feed	8.0%

**Gross Margin**

Grain	\$ 6,203,090
Petroleum	\$ 745,190
Agronomy	\$ 591,785
Feed	\$ 123,684
<b>Total Gross Margin</b>	<b>\$ 7,663,750</b>

**Operating Expenses**

Variable	\$ 2,448,541
Fixed	\$ 2,253,809
Other	\$ 1,712,182

**Total Operating Exp.** \$ 6,414,531

<b>Profit before Patronage</b>	\$ 1,249,220	<b>ROE</b>	12.8%
<b>Cash Patronage Refund</b>	50% \$ 624,610		
<b>Qualified Stock Refund</b>	\$ 624,610		
<b>After Tax Income</b>	\$ -		

**Estimate of Cash Flows**

Qualified stock refund	\$ 624,610		
Depreciation	\$ 500,000		
Principle	\$ -	growth rate	
Additional Asset Purchased	\$ 700,000		4.9%
Additional short term loan	\$ -		
Additional long term loan	\$ -	revolving period	
Qualified Redemption	\$ 250,000		14.3

**Cash Flow** \$ 174,610  
*Cash flow goal* > \$250,000

**PROJECTED BALANCE SHEET****ASSETS**

Cash	4,338,184
Prepaid expense	57,651
Accounts receivable	2,218,660
Storage receivable	100,000
Inventory	3,464,305
<b>TOTAL CURRENT ASSETS</b>	<b>10,178,800</b>
Investments	400,000
Land Buildings and Equipment	4,631,048
less Accumulated Depreciation	(589,585)
<b>Total Fixed Assets</b>	<b>4,041,463</b>

**TOTAL ASSETS** 14,620,263

*Working capital* 5,515,225

*Working capital goal* 5,600,000

**LIABILITIES**

Accounts payable	70,000
Working capital loan	4,663,575
Grain payable	100,000
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,833,575</b>
Loan term loan	-
<b>TOTAL LIABILITIES</b>	<b>4,833,575</b>
<b>MEMBER EQUITY</b>	
Membership stock	569,310
Qualified stock	6,457,049
Unallocated equity	2,760,330
<b>TOTAL MEMBER EQUITY</b>	<b>9,786,688</b>

**TOTAL LIABILITIES AND EQUITY** 14,620,263

*Member equity%* 66.9%

*Member equity% goal* > 65%