A Dashboard for the Board

Phil Kenkel
Bill Fitzwater Cooperative Chair

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Tim is the newest board member at Country United Alliance Cooperative. The last few years have been challenging for the cooperative due to a lingering drought and erratic grain volumes. This year's harvest appeared to have great potential but some late hail storms and disease problems targeted the cooperative's trade territory. Grain receipts turned out to be around 60% of an "average" year. As often happens in a short crop year, producers decided to sell grain more rapidly which also limited storage income. The manager initiated some storage hedges which he concluded should be profitable. Now, as the cooperative approaches year's end it appears that those hedges did not work out.

The cooperative also undertook a long needed upgrade of its fertilizer storage and blending facility. The project reminded Tim of his own kitchen remodeling job. Every time the contractor started on a new phase, more problems were uncovered. The upgrade is now clearly behind schedule and over budget. The CEO has kept the board apprised of each development and the board has concurred with the decisions at each point in the process. Still, the board had become concerned that the cooperative had bitten off more than it could chew, particularly in a challenging grain year.

As the annual audit approached the board began to get their first glimpse of the cooperative's financial performance and condition. While the budgets presented at the monthly board meetings had been deteriorating the CEO had been implying that the cooperative could breakeven for the year. Now it appears that there will be an operating loss of over $200,000. As that information sunk in, Tim and the other board members were surprised to have the cooperative's lender request a meeting with the board. The discussion touched on the mechanics of grain merchandising, balance sheet management, loan covenants and other topics that made Tim's head hurt. In the end it appeared to come down to three major issues.

The first issue was the cooperative's recent history of poor operating performance cumulating with the current year. In the most recent year, it appears the storage hedge procedures and been a contributing component. In anticipation of a good harvest the manager had taken futures positions to lock in favorable storage hedges. Unfortunately the late crop issues resulted in the cooperative purchasing less grain than the CEO anticipated. The futures market positions that the board assumed were sheltering them from price risk on grain inventories turned out to be a source of risk. In addition to the low margins (which the storage contributed to) the bank felt that the cooperative had not been pro-active in trimming expenses.

The second issue was the capital expenditures on the fertilizer plant upgrade. The board knew when the project was proposed that it would stretch the cooperatives financial capacity.

However the CEO felt confident that the cooperative could handle the increased debt without being excessively leveraged. The cooperative's banker was reluctantly on-board with the project at the beginning. Now, after repeated increases in the project budget with resulting increases in term debt, the cooperative's debt coverage ratio was below the bank's benchmark.

The third issue was inter-related with the first. As the fertilizer project had unfolded the CEO had repeatedly made fixed asset purchases using cash. That resulted in the cooperative's working capital falling below the loan covenants. Each time that occurred, the bank would end up increasing the term debt to bring the working capital back up to the target. While the CEO felt it was all much to do about nothing, the bank's relationship manager felt that the board and CEO either did not understand the important of working capital or were failing to monitor it.

As Tim pondered these issues, he wondered what had gone wrong with the board's fiduciary oversight. The board spent time going over the financial statements and accounts receivable at every meeting. However there was so much information to digest it was difficult to know what to concentrate on. The board generally concluded that, as long as the CEO was comfortable with the cooperative's financial position and on top of the issues, that everything was under control. Tim likened the situation to a tractor that slowly overheated. He concluded that the board needed a "Dashboard" of key financial indicator and risk positions that the board could easily monitor. The board needed a short list of financial indicators to monitor and some clear "red lines" signifying problems.

The rest of the board liked Tim's idea. Since he was the youngest member on the board and had taken "Agricultural Cooperatives" at OSU they elected him to come up with the dashboard.

What numbers, ratios or indicators would suggest Tim select for the board's dashboard?