

Financial Decisions for the Board

Phil Kenkel

Bill Fitzwater Cooperative Chair

AE-16019 Dec 2016

Oklahoma Farmers 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 \$249,000. 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, Oklahoma Farmers has numerous needs to replace and upgrade rolling stock and infrastructure. The manger has asked for a fixed asset replacement budget of **\$500,000**. The manager forecast it will take an equity retirement budget of **\$125,000** to maintain the current age 65 revolving cycle. The board’s equity retirement committee has been investigating transitioning to an age of stock system as is recommending a budget of **\$150,000**.

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 **\$50,000**. 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 \$125,000 and fixed asset budget of \$500,000 the projected cash flow is a negative \$390, which is obviously below the goal of \$50,000. Assuming no change in inventory, accounts receivable or the seasonal loan, the projected working capital is 5,340,225 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 \$50,000 of cash flow. You are mindful of the very real needs for \$500,000 for fixed assets and \$125,000 or more for equity retirement but you obviously want to make those decisions in the context of balance sheet management.**

Summary of decisions	Wish list	Proposed
Cash patronage percentage	_____50_ %	_____ %
Fixed asset budget	\$500,000	\$_____
Equity retirement budget	__ \$150,000	\$_____
Additional long term borrowing	_____ \$	\$_____

Addition or reduction in

Seasonal borrowing

_____ (show with + or -)

PROJECTED INCOME STATEMENT
OKLAHOMA FARMERS COOPERATIVE

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
Total Gross Margin	\$ 7,663,750
Operating Expenses	
Variable	\$ 3,448,541
Fixed	\$ 2,253,809
Other	\$ 1,712,182
Total Operating Exp.	\$ 7,414,531
Profit before	\$ 249,220
Patronage	
Cash Patronage	50% \$ 124,610
Refund	
Qualified Stock	\$ 124,610
Refund	
After Tax Income	\$ -
Estimate of Cash Flows	
Qualified stock refund	\$ 124,610
Depreciation	\$ 500,000
Principle	\$ -
Additional Asset Purchased	\$ 500,000
Additional short term loan	\$ -
Additional long term loan	\$ -
Qualified Redemption	\$ 125,000
Cash Flow	\$ (390)
<i>Cash flow goal</i>	<i>> \$50,000</i>

PROJECTED BALANCE SHEET
OKLAHOMA FARMERS COOPERATIVE

ASSETS		LIABILITIES	
Cash		Accounts payable	
	4,163,184		70,000
Prepaid expense		Working capital loan	
	57,651		4,663,575
Accounts receivable		Grain payable	
	2,218,660		100,000
Storage receivable		TOTAL CURRENT	
	100,000	LIABILITIES	4,833,575
Inventory		Loan term loan	-
	3,464,305		
TOTAL CURRENT		TOTAL LIABILITIES	
ASSETS	10,003,80		4,833,575
	0		
Investments		MEMBER EQUITY	
	400,000	Membership stock	
			569,310
Land Buildings and		Qualified stock	
Equipment	4,431,048		6,082,049
less Accumulated		Unallocated equity	
Depreciation	(589,585)		2,760,330
Total Fixed Assets		TOTAL MEMBER EQUITY	
	3,841,463		9,411,688
TOTAL ASSETS		TOTAL LIABILITIES AND	
	14,245,26	EQUITY	14,245,263
	3		
<i>Working capital</i>		<i>Member equity%</i>	<i>66.1%</i>
	<i>5,340,225</i>		
<i>Working capital goal</i>		<i>Member equity% goal</i>	<i>> 65%</i>
	<i>5,600,000</i>		