2013

ANNUAL COOPERATIVE BUSINESS SURVEY

Final Report

July 1, 2014

Center for Cooperatives
UNIVERSITY OF WISCONSIN–MADISON

In collaboration with the
National Society of Accountants for Cooperatives

Background and Acknowledgment

The University of Wisconsin Center for Cooperatives (UWCC), with financial support and collaboration from the National Society of Accountants for Cooperatives (NSAC), initiated the Annual Cooperative Business Survey to collect annual financial data from cooperative firms, including patronage equity and refund practices. The results will provide a longitudinal perspective for understanding the unique financial management practices of cooperative firms.

The Annual Cooperative Business Survey is part of a broader research effort by UWCC to more fully describe and understand the impact of cooperatives. Cooperatives occupy a unique place in our economy: owned by their members and operated to meet their needs, they have significant impacts on their local economies and in their relevant business sectors.

The Center's ongoing initiatives to evaluate cooperative behavior and performance build on the Center's 2009 report on the Research on the Economic Impact of Cooperatives (REIC), which described and quantified for the first time the magnitude of economic activity accounted for by U.S. cooperative businesses. The Cooperative Business Study, completed in 2012, sampled a set of the cooperatives identified in the REIC study, and used an intensive interview methodology to gather data on governance practices. In 2013, UWCC submitted a successful proposal to the U.S. Census Bureau to access its data to develop a methodology for identifying cooperative business firms within the Economic Census of U.S. industry.

In the longer term, this project will provide the basis for more comprehensive, in-depth analysis on cooperative economic impacts over time.

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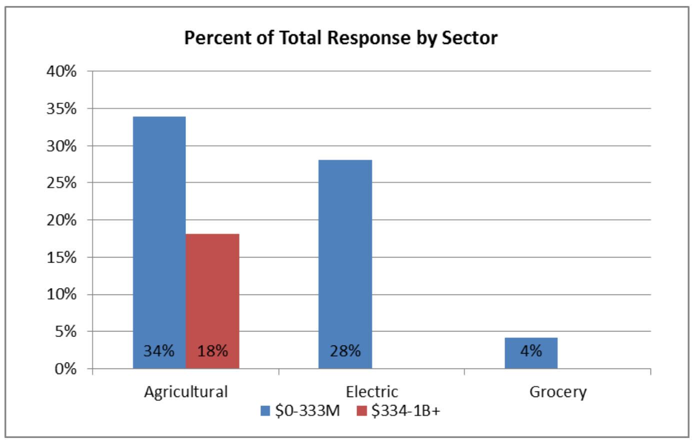
Summary: Survey Response

In late October and early November 2013, UWCC distributed the first Annual Cooperative Business Survey to 653 members of the National Society of Accountants for Cooperatives who were employed with cooperative firms. The list was reviewed so that only one survey per firm was distributed.

There were 171 responses, for an initial response rate of 26%. Project staff then refined the response set used for analysis, omitting several duplicates and responses that did not provide sector information, since sector financial practices and requirements can vary significantly. After an initial analysis on this smaller number of responses, staff then took out two additional responses from the agricultural sector which were skewing results significantly due to their large size.

This report describes the results from this final subset of 121 responses, an effective response rate of 19%. The number of responses per question varies, as some respondents did not answer specific survey questions.



Results are reported out for the agricultural and electric sectors, which represented 81% of the surveys received. The next largest sector was grocery; 4% of the responses were from firms active only in the grocery sector and are included for comparison. While some agricultural cooperatives include grocery retail activities, that activity is reflected in the agricultural, and not grocery, results.

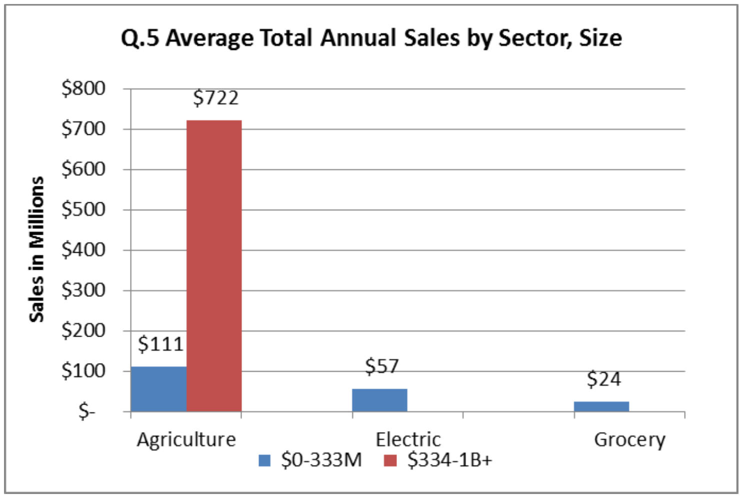
The summarized responses are also divided by firm size as measured by total annual sales. Two size categories were used: sales up to $333 million, and sales from $334 million to $1 billion plus. The averages of the responses within each category are used in this summary report. While the responses from the agricultural cooperatives reflect the broad range of firm size in this sector, responses from the electric and grocery reflect the prevalence of firms smaller than $334M.

The results are based on the most recent annual financials, and included results from fiscal years ending in both 2012 and 2013.

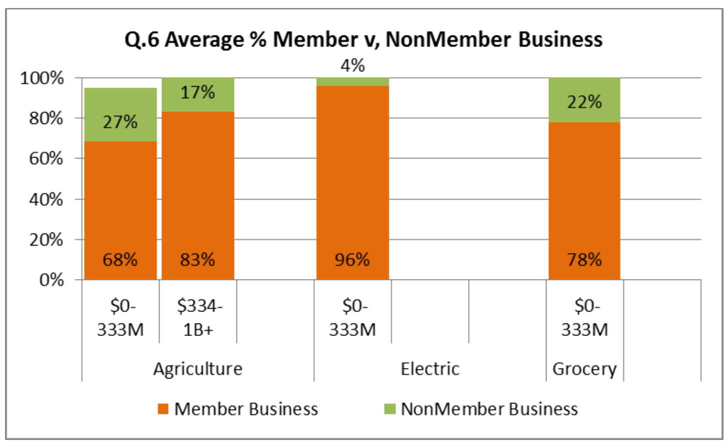
The 2013 Annual Cooperative Business Survey Appendices contain the survey instrument (Appendix 1) and the tabulations (Appendix 2) for each question in the survey.

Sales and Net Earnings by Source

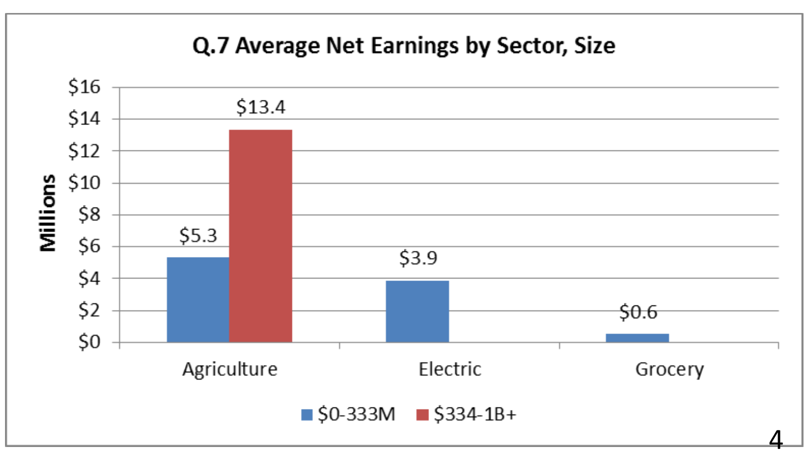
Total sales in the $0-$333M category averaged $111M and less across sectors. While a wide range of co-op sizes is represented, the majority of respondents are smaller than the ranges might suggest.



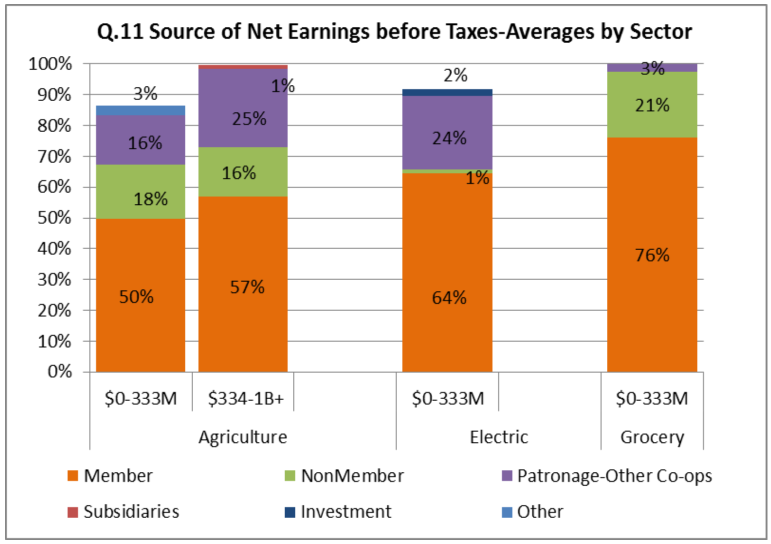
Across the reported sectors, a substantial portion of cooperative sales comes from members. The agricultural sector has a larger percentage of nonmember business, reflecting the diversified services offered by farm supply cooperatives. This is particularly the case with the smaller agricultural cooperatives.



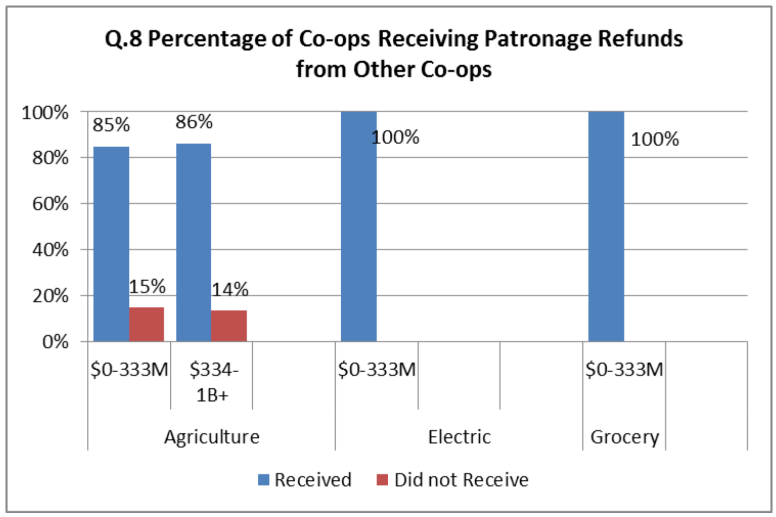
The average net earnings ranged from ranged from $600K to close to $17M. This represented 2% of sales for grocery and the large agricultural cooperatives, to 5% for the small agricultural cooperatives. The net earnings/sales ratios were 4% and 7% for the small and large electric co-ops.



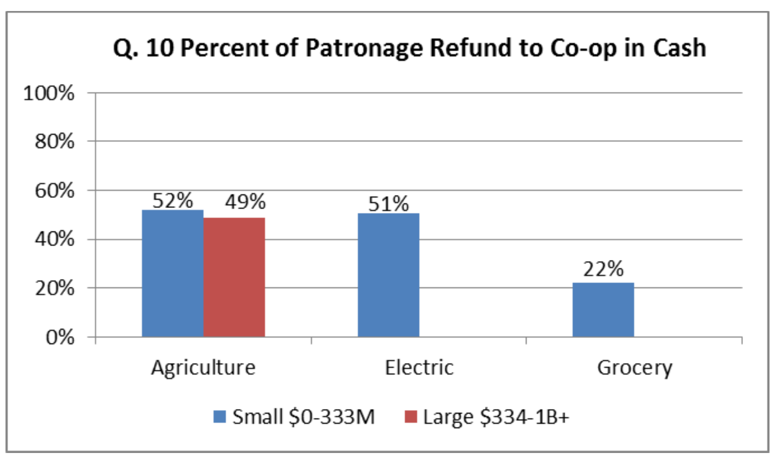
Member business also accounts for the largest portion of net earnings before taxes, and accounted for 50-76% of net earnings across the three sectors.



Patronage refunds from regional co-ops or other sector "co-ops of co-ops" were the norm, with all of the grocery and electric, and 85-86% of the agricultural cooperatives receiving refunds. These refunds are another significant source of net earnings for both agricultural and electric cooperatives, at 16-25%. It was an insignificant source of net earnings in the grocery co-op responses.

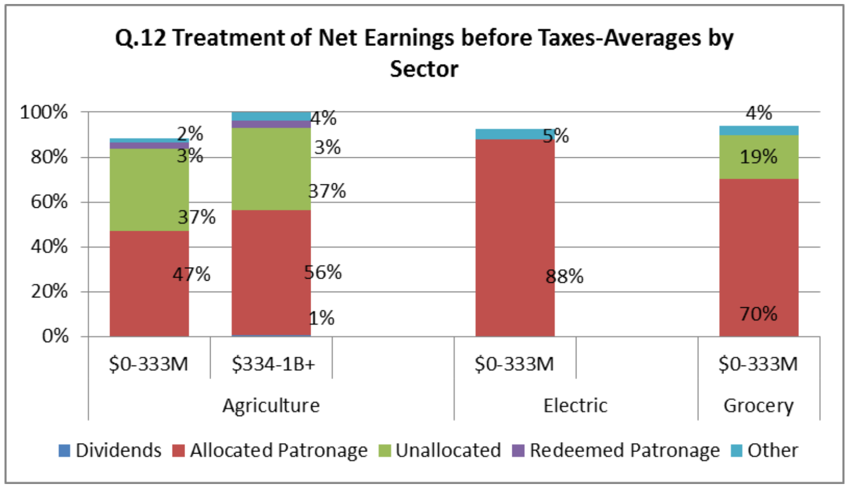


On average, about half of the refund received was in cash in the agricultural and electric sectors, and 22% among grocery co-op respondents.

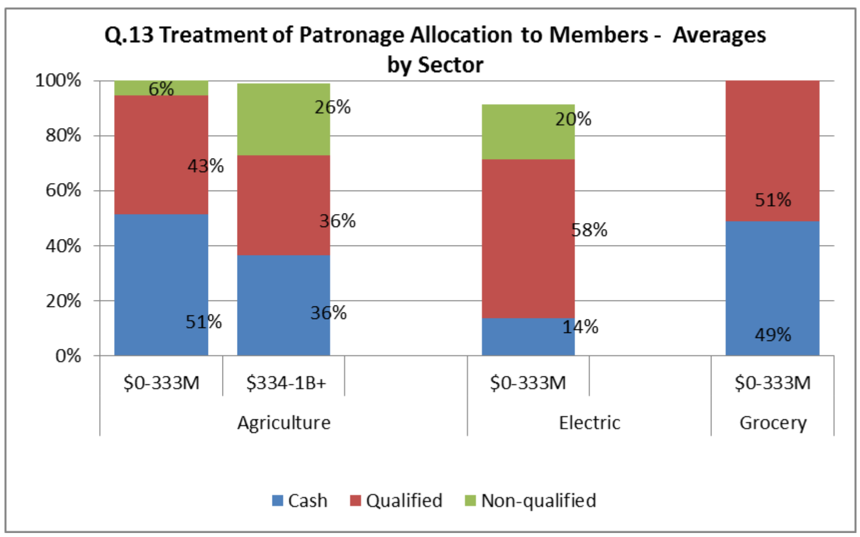


Patronage Allocations

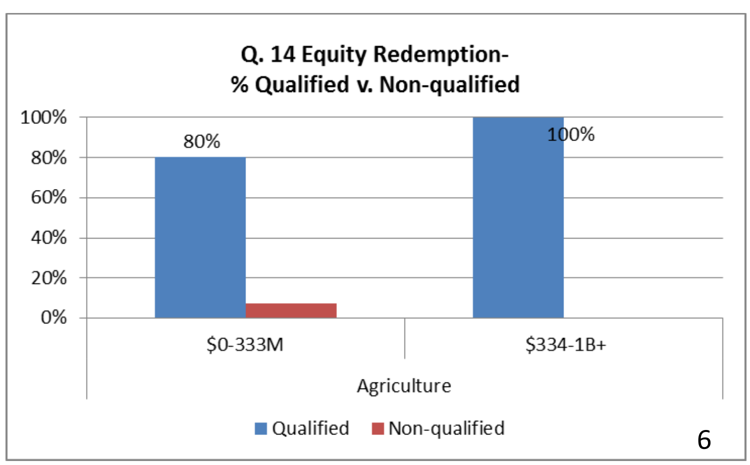
In the agricultural sector, 47-56% of net earnings were allocated to patrons. This percentage was higher in the other sectors. The percentage treated as unallocated reserves varied across sector as well; on average the agriculture sector placed over a third of net earnings in unallocated reserves. Redemption of retained patronage represented a small percentage of net earnings on average.



Within agricultural cooperatives, an average of 36-51% of the net earnings that were allocated to patron members was paid in cash. Another 36-43% was qualified. Nonqualified allocations were predominantly used by larger cooperatives in the agricultural sector.

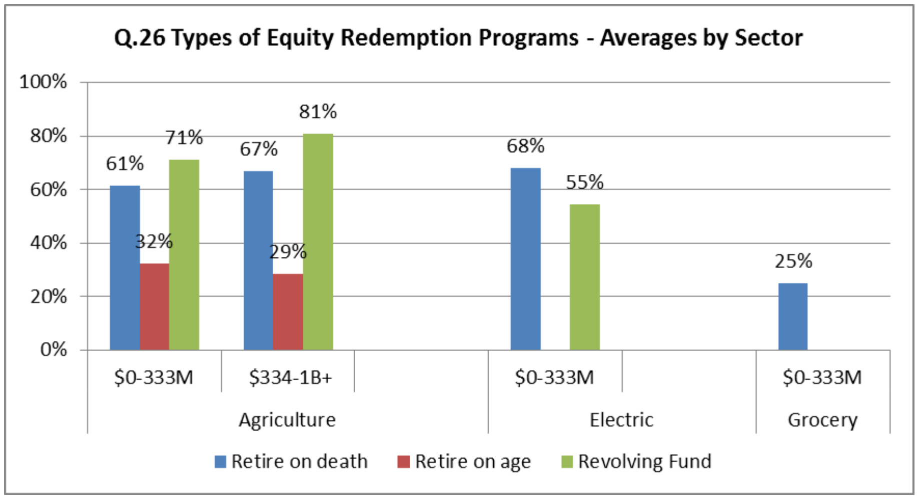


Of those agricultural respondents that redeemed allocated equity, 80-100% of those redemptions were qualified equity.

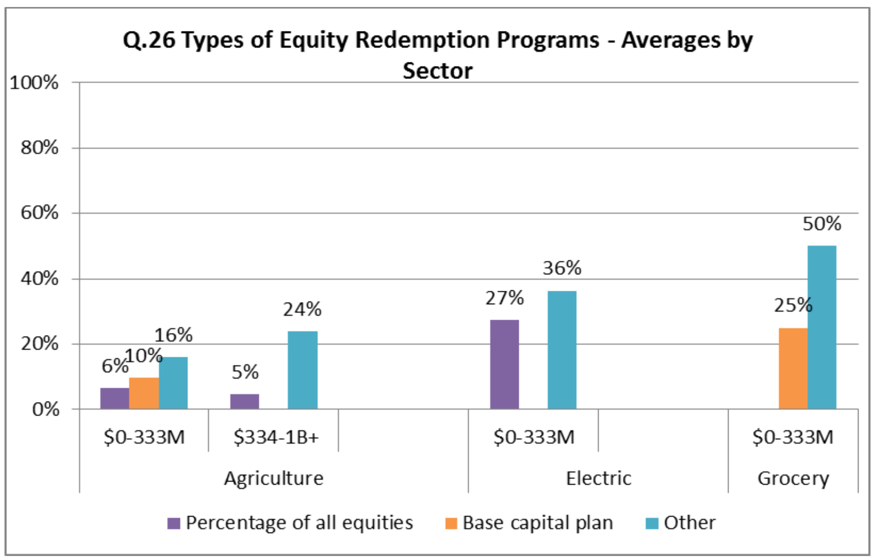


Equity Redemption Programs

Equity redemption practices vary significantly across sectors. In the agricultural and electric sectors, more than half have programs to revolve equity. Survey respondents listed redemption cycles that run from 3 to 30 years.



Among the respondents to this survey, base equity plans, and percentage of all equity retirement programs, were not used as frequently as other types of programs. The "Other" category described hybrids of the program categories listed in the survey.



Some of these responses may have been skewed by the terminology used, which can vary across sectors. Future surveys will be designed to address these anomalies.

Respondents were asked about issues or concerns about equity capital and equity redemption. Sample responses included:

Difficult to keep money in Equity when the members want the maximum cash back that they can get.

We are currently working on a plan to shorten our retirement cycle to 25 years while maintaining a healthy equity level.

Biggest concern is the aging of our membership. Where is the capital going to come from when more members retire than join.

Retiring on a percentage of equity will start pushing out the older years to a longer length. We are looking at doing a hybrid method between percentage of equity and revolvement. We have not changed as of yet because we do process estate retirements…

We try to stay around 50% equity to assets. Construction has slowed in the last couple of years causing us to be over the 50% which allows us to refund more than in the past however the concern is not to be too aggressive because of weather related issues

A high percentage of our allocated patronage is based on allocations from our power supplier which has a much slower retirement schedule.

No significant concerns - plan is to move from 15 yr to 12 yr cycle over next 3 yrs.

Balancing the following: commitment to build the cooperative balance and acquire assets to serve our patrons and returning equity/cash back to the members.

The single biggest concern is not just the equity redemption but finding an equity software solution for the future.

Having adequate earnings and cash flow to finance equity redemption from larger earning years which have occurred in the last couple of years. Educating younger members on the importance of patronage dividends and operating on a cooperative basis.

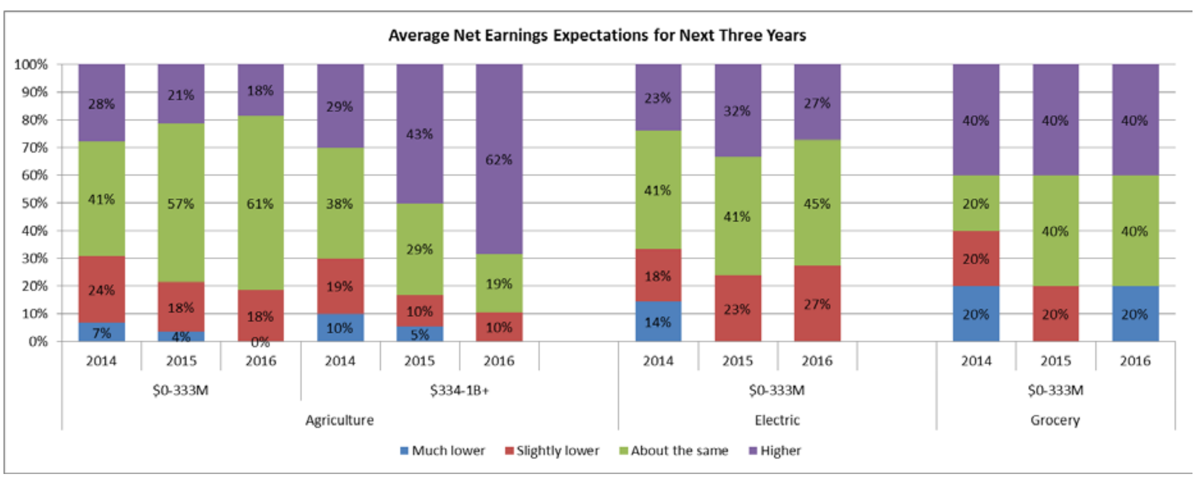
Capital Expenditures and Outlook

Respondents were asked about capital expenditures in both the reported fiscal year, and in the next. Plant expenditure averages were planned for both years, but were expected to be slightly lower in the following year. Few cooperatives reported having paid for an external valuation in the last five years.

Average Capital Expenditures-Reported Fiscal Year ($Millions)		Plant	Investment	Acquisitions	Other
Agriculture	$0-333M	$ 2.3	$ 0.2	$ 0.3	$ -
	$334-1B+	$10.8	$ 1.7	$ 0.9	$ -
Electric	$0-333M	$ 4.1	$ -	$ -	$ -
Grocery	$0-333M	$ 0.2	$ -	$ -	$ -

Average Capital Expenditures-Next Fiscal Year ($Millions)		Plant	Investment	Acquisitions	Other
Agriculture	$0-333M	$ 2.6	$ -	$ 0.5	$ -
	$334-1B+	$ 12.8	$ -	$ 0.3	$ -
Electric	$0-333M	$ 5.2	$ 0.3	$ -	$ -
Grocery	$0-333M	$ 1.1	$ -	$ -	$ -

Among the smaller agricultural cooperatives, 41-61% expect that net earnings will be the same over the next three years, with 22-28% expecting net earnings to be higher or much higher. On average, 34-72% of the larger agricultural cooperatives expect net earnings to be higher or much higher expectations for the next three years.



Expectations among the small electric cooperatives are more consistent, with 41-15% expecting that net earnings will remain the same. The percentage that expects higher or lower performance is roughly equivalent in 2014 and 2016, although 37% expected higher or much higher net earnings in 2015.

Balance Sheet Comparisons

Average balance sheet profiles differed across size and sector break outs. These differences are reflected in the charts below, reported in millions. The agriculture equity averages reflects the common practice of using unallocated reserves, which were 77-89% of allocated reserves, to balance the need to redeem patron equity with the need to maintain equity reserves.

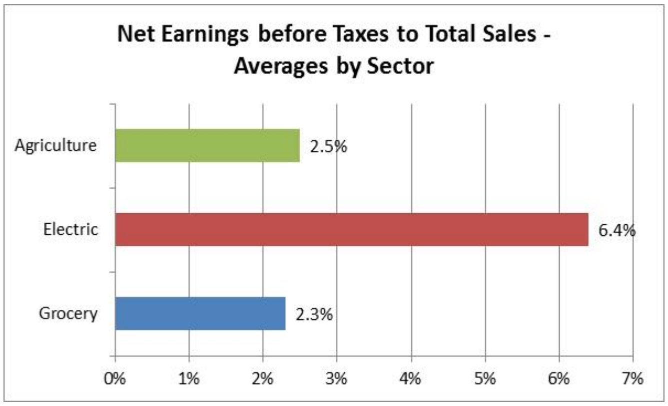
Assets-Averages		Current	Fixed	Equity in other coops	Equity in other subsidiaries	Other
Agriculture	$0-333M	$37.25	$18.15	$4.92	$0.42	$1.54
	$334-1B+	$138.82	$65.13	$13.41	$4.27	$3.16
Electric	$0-333M	$10.27	$73.81	$17.41	$0.69	$3.24
Grocery	$0-333M	$3.63	$3.61	$0.18		

Liabilities-Averages		Current-patronage	Current-other	Long-term debt	Long-term other
Agriculture	$0-333M	$2.38	$24.96	$5.66	$3.77
	$334-1B+	$4.02	$91.79	$39.07	$7.31
Electric	$0-333M	$20.25	$8.17	$46.44	$4.34
Grocery	$0-333M	$0.35	$1.61	$1.61	$0.18

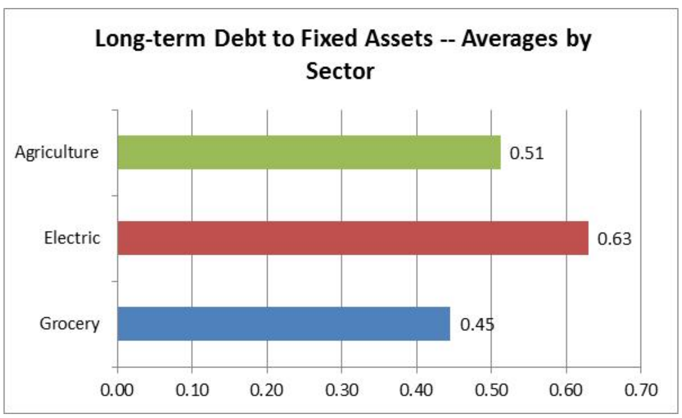
Equity-Averages		Member stock	Preferred stock	Allocated reserves qualified	Allocated reserves non-qualified	Unallocated reserves	Other
Agriculture	$0-333M	$1.95	$0.42	$9.59	$5.34	$11.44	-$1.93
	$334-1B+	$3.19	$4.85	$42.79	$8.90	$46.00	-$4.14
Electric	$0-333M	$4.81	$0.00	$19.56	$10.42	$3.36	$0.57
Grocery	$0-333M	$1.54	$0.03	$0.99	$0.00	$0.53	$0.64

Financial Ratios

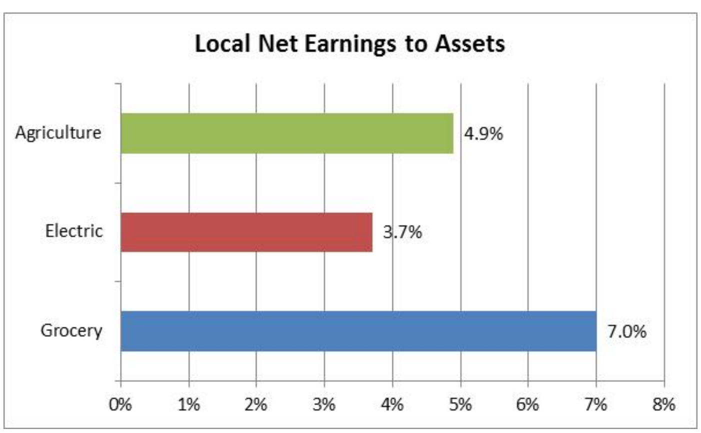
The average financial ratios differ across sectors, and guidelines for analysis may vary by sector.



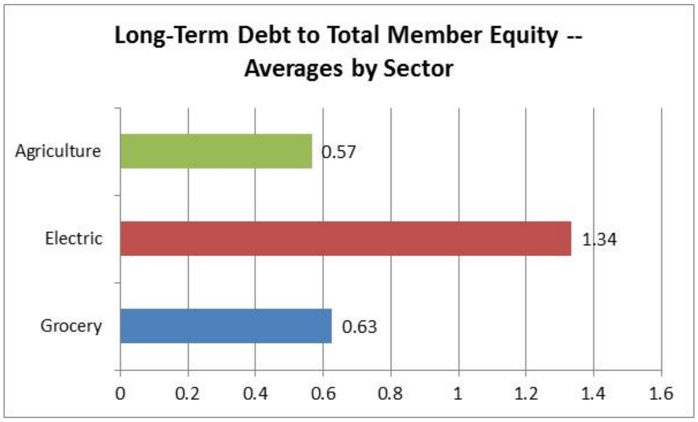
While not reflected in this graph, the agricultural cooperatives in the small category averaged a slightly higher percent.



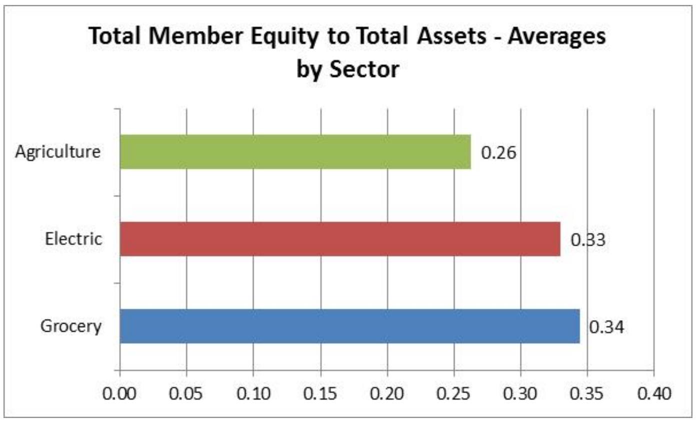
Again, sector differences are reflected in these averages.



The local net earnings do not include patronage refunds to the cooperative from regionals or other “co-ops of co-ops”.



This leverage ratio reflects major sector differences among respondents.
The equity calculations do not include unallocated reserves or other comprehensive/non-controlling equities.

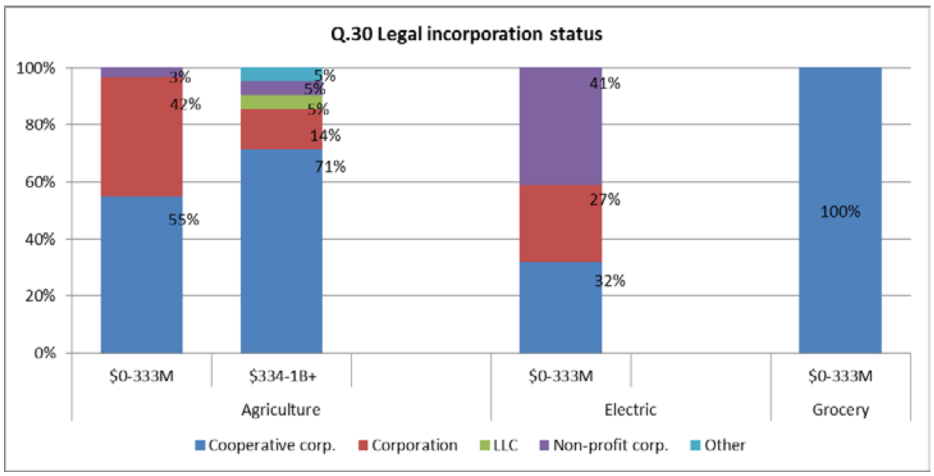


How much of the co-op do the members own? The impact of unallocated equity, patronage redemption programs and long-term debt may be reflected in these sector ratios.

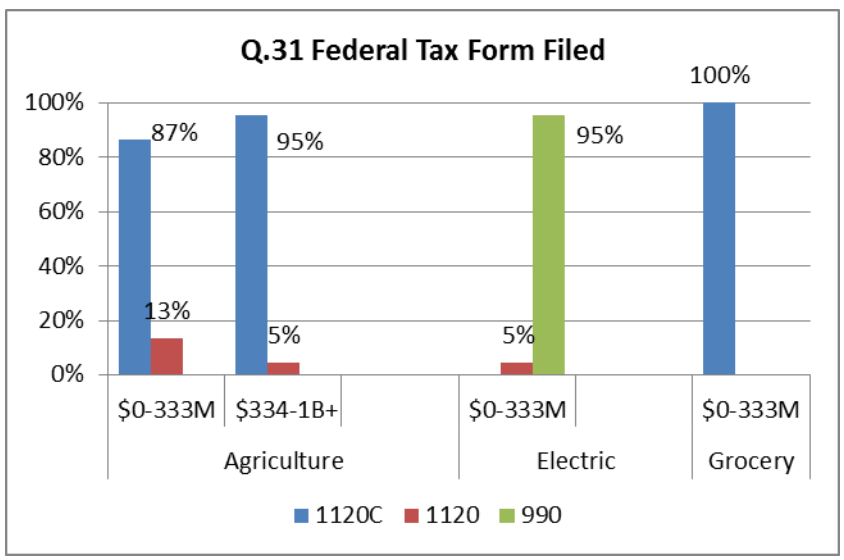
Legal and Tax Status

The survey included several questions designed to provide an overview of the legal and tax status of cooperative respondents and their relationship to operating on a cooperative basis.

Responding cooperatives were incorporated in states across the U.S. Incorporation status results are mixed, reflecting sector statutory requirements, and variation in state incorporation statutes and nomenclature. These overlapping categories also increase the chance for inaccurate responses to this survey question.



There was far more consistency in federal tax form use by cooperatives, with 87% of the small, and 95% of the large agricultural cooperatives filing a Form 1120C for the most recent fiscal year. Consistent with their federal nonprofit status, most electric cooperatives filed a Form 990. Tax form use may be one of the most direct ways of identifying a firm as a cooperative.



Section 521 status for agriculture cooperatives is claimed by 26% of $0-333M co-ops, , and 20% of the $334-1B+ cooperatives.

Conclusions and Next Steps

The results of this survey are a first step in the long-term process of providing a more comprehensive, in-depth analysis on cooperative economic impacts. Those surveyed are members of NSAC, and as such represent a core group of knowledgeable professionals who can support this type of data collection effort. NSAC has provided a solid basis on which to build this survey project. UWCC plans to continue to survey the NSAC members, to provide the basis for a longitudinal perspective of cooperative business practices.

Next steps are also being taken to expand the universe of cooperatives that will participate in this survey project. Broader participation across different sectors, such as grocery, will contribute to a more nuanced picture of cooperative sector business activity.