Advanced Session

- Oklahoma
- Credentialed
- Cooperative
- Director
  - November 17, 2004
  - Autry Technology Center (with video downlinks)
  - Enid, OK.

Developing Financial Goals

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- Easy to identify goals
- Harder to achieve them
- Establishing goals
  - Address where you are today
  - Identify in writing the goals you want to achieve
  - How you are going to achieve them (action plans)
  - When you expect to achieve them (Monitor progress)
  - What sacrifices will the company have to make
    - Limit cash outlays
    - Delay expansion plans, Close departments
Developing Financial Goals

- Financial Goals need to be written down
- Strategic planning is important when establishing goals.
- Timetables
- Having the right personnel in the right positions in order to accomplish the goal

Developing Financial Goals

- Review of balance sheet
- Review of operating statement
- Identify goals and who is responsible
- Set time tables
- Monitor progress monthly/annually
- Compare to peer group

Developing Financial Goals

- Balance Sheet Measurements
  - Solvency
    - Member Equity/Total Assets
  - Leverage (Term debt/Equity)
    - Term Debt/Local Equity*
    - Term Debt/Equity
  - Liquidity
    - Current Ratio (Current Assets/Current Liabilities)
    - Working Capital (Current Assets – Current Liabilities)

* Local equity = Total equity – regional investments
Developing Financial Goals

- **Operational Measurements**
  - Local Savings/Total Sales
  - Labor/Gross Income
  - Return on Assets (ROA)*
  - Return on Net Worth (ROE)**

*ROA=Net profit/Total Assets
**ROE=Net profit/Total Equity

- **Balance Sheet Goals**
  - Equity ownership of Total Assets (50-60%)
  - Leverage no more then (50%)
  - Local Leverage no more then (30%)
  - Liquidity - Current Ratio (1.5-1)
    - Working capital $$$
  - Compare to peer group

Developing Financial Goals

- **Compare to Oklahoma Cooperatives**
  - ME/TA 46.8%  53.4%  55%
  - C.R 1.39-1  1.52-1  1.41-1
  - Local Leverage 19.01%  19.63%  18.07%
  - W.C $951,004  $817,664  $721,987
Developing Financial Goals

- Operational Goals
  - Profits of 2% of Sales
  - Labor costs of less than 40% of gross income
  - Return on Equity of 8%
  - Return on Assets of 10%
  - Compare to peer analysis

- Compare to Oklahoma Cooperatives

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Profit/Sales</td>
<td>1.72%</td>
<td>.7%</td>
<td>.7%</td>
</tr>
<tr>
<td>Local Profits</td>
<td>$212,798</td>
<td>$90,008</td>
<td>$70,227</td>
</tr>
<tr>
<td>Labor/Gross Income</td>
<td>43.7%</td>
<td>45.8%</td>
<td>46.4%</td>
</tr>
<tr>
<td>ROE</td>
<td>10.97%</td>
<td>(11.19%)</td>
<td>(10.66%)</td>
</tr>
<tr>
<td>ROA</td>
<td>5.14%</td>
<td>(5.98%)</td>
<td>(5.89%)</td>
</tr>
</tbody>
</table>

- From Banks perspective
  - Financial covenants established in loan agreement should be minimums for cooperative to achieve
  - Plans should exceed these levels and avoid violations
  - Takes time to meet ideal goals but key is to make progress in achieving goals.
Developing Financial Goals

- From Banks perspective
  - Ideal for company to have financial strength to survive the impact of outside forces.
  - Financial success allows for company to continue to grow and meet customers needs.
  - Meeting customers needs to be done profitably.

- Ability of the cooperative to achieve these goals and establish a trend of exceeding established goals.
- A monitoring processes to track progress to these goals is important.

Developing Financial Goals

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities &amp; Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>Current</td>
</tr>
<tr>
<td>Investments</td>
<td>Long Term</td>
</tr>
<tr>
<td>Fixed Assets</td>
<td>Equity</td>
</tr>
<tr>
<td>Total Assets</td>
<td>Liabilities &amp; Equity</td>
</tr>
</tbody>
</table>
Developing Financial Goals

Income Statement
Income
Less Expense
= Profit

Use of a Goal Monitor

- Tracking goals monthly/quarterly to determine progress
- If failing to achieve targets identify the reasons and take corrective action.
- Strong financial position allows for flexibility in determining steps to be taken.

THANK YOU
QUESTIONS??