Mid America Cooperative Council

2003-2013

"A Decade of Cooperative Education"

MACC VOICE

October 2013 Newsletter

Mid America Cooperative Council
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CFO Essentials and CFO Controller Conferences

The CFO Essentials Conference teaches the integrated view of co-op finance management. This series of one day programs qualifies for CPE credits and covers methods for:

- Managing Liquidity
- Measuring Financial Risk
- Developing Multiple Borrowing Reports
- Debt and Equity Management Policies
- Topics Driven by Annual Steering Committees

Attendee Comments

"It was very interesting and was presented very well by giving background and basics."

"The program showed how cooperatives are treated under the Capper-Volstead Act."

"The scenarios were very helpful to understand the results of various actions and decisions."

"The discussion included examples and was presented in a logical manner."

"The information on cost of capital was great!"

The 2013 CFO Essentials Conference will take place on November 20-21 at the Embassy Suites North in Indianapolis, IN. If you have questions regarding the CFO Essentials Conference, please contact MACC at (317) 726-6910 or send an email to: knowledge@macc.coop.

The CFO Controller Conference is customized annually to deliver fresh and relevant topics to address the current economic trends and climate. This conference features top-tier industry speakers and CPE credits. Topics include:

- Equity Structure
- Patronage
- Revolving Equity
- Cyber Crime and Fraud
- Managing Financial Risk
- Capital Asset Structure

Attendee Comments

"Excellent! Really will help my business."

"Nice overview; can and will use."

"Obvious audience engagement!"

"Thanks, this hit many areas that I can use in our business. It really got me thinking…"

"Excellent session. Two, 1/2 days was just right."

"Good, well-rounded variety of topics and speakers."

The 2013 CFO/Controller Conference will take place on November 21-22 at the Embassy Suites North in Indianapolis, IN. If you have questions regarding the CFO Controller Conference, please contact MACC at (317) 726-6910 or send an email to: knowledge@macc.coop. **MACC offers CPAs 16 hours of continuing education credits for attending both conferences, through NSAC.**

(See below for photos of past CFO Essentials and CFO Controller Conferences):

2013 MAC-ED PROGRAM CALENDAR

Co-ops 101
Nov. 8 Farm Credit Mid-America Louisville, KY

Co-op Credit Conference
Oct. 17-18 Holiday Inn North Indianapolis, IN

CFO Essentials Conference
Nov. 20-21 Embassy Suites North Indianapolis, IN

CFO/Controller Conference
Nov. 21-22 Embassy Suites North Indianapolis, IN

Co-op Board Chairmen's Roundtable
Dec. 12-13 AIEC Springfield, IL

MACC Membership Meeting
Dec. 16 Select Sires Plain City, OH

Co-op Equity . . .
How to Manage it at Your Co-op

Key Board Decisions in Equity Management

The first step in equity management, which is necessitated by U.S. tax laws, is to **separate member sourced (patronage) and non-member sourced (non-patronage) income.** Most cooperatives distribute nonmember income to unallocated equity (unallocated reserves). This implies that it is not paid out in cash, will not be redeemed in future years but instead serves as permanent equity. A minority of cooperatives allocate non-patronage income to members' accounts where it could be paid out in the event the cooperative was dissolved.

The first decision, after separating non-member income, is to **decide what portion of patronage income should be retained as unallocated equity and what portion should be allocated to members**. Unallocated equity, which is also referred to as unallocated reserves or retained earnings, has an important function as a "cushion" which can absorb unexpected losses without writing down the value of allocated equity. The second decision is whether to **distribute allocated income as cash (immediately redeemed) or as retained patronage (redeemed at a later date)**. The member reports the cash patronage as income while the cooperative excludes the distributed income from their earnings calculations. This decision involves an obvious balancing act between member return and the cooperative's cash flow. The third decision for a board of directors is to **determine the taxability of the income distributed in the form of equity (stock)**. A qualified distribution is one where the member receives equity which is taxable income in the current year and the cooperative is able to exclude the distribution from its earning calculations and does not pay corporate tax on the allocation. The board makes the decision to redeem the equity at a later date and, since the member has already paid taxes on the earnings, there is no tax effect at redemption.

A non-qualified distribution of equity is one where the cooperative does not exclude the distribution from its earning calculation and the distribution is not reported to the IRS as income to the member. The cooperative pays the corporate tax on the earnings. At the time of redemption the cash payment is reported as income to the patron and creates a deduction for the cooperative. The decision to distribute in qualified versus non-qualified equity therefore changes the timing of the tax payment, but in either case the tax burden is ultimately transferred to the member as an extension of their business.

Choice of Equity Redemption Program

In recent years we have seen cooperatives considering changes in equity management programs, increasing the percentage of unallocated equity, making greater use of debt to fund investments, and implementing nonqualified distributions. A key decision by a board of directors is to set the rules for redemption of equity not needed on the cooperative's balance sheet in that time period. There are three common forms of equity redemption programs: estates, age of patron and revolving fund. **Virtually every cooperative uses a combination of these three methods** with everyone reporting paying off estates in combination with an age of patron method or a revolving fund method. For more information, please visit **http://www.chscenterforcooperativegrowth.com/perspectives_michael.html.**

(excerpts from Boland White Paper, Dr. Michael Boland, University of Minnesota, E. Fred Koller endowed chairholder in agribusiness management and information technology)

Rod's Thoughts

MACC is thrilled to be celebrating our 10th Anniversary! The charter members envisioned an organization that would focus on cooperative education and training. **To date, we have had over 6,000 people attend our programs.** The simple reason for our success is the unique importance of our cooperative message. We see strength from sharing our experiences with our cooperative members.

In a few weeks, we will be holding our ninth **CFO Conference and its' partner, the CFO Essentials Conference.** Both programs cover our unique cooperative finance structure, with the CFO Essentials Conference emphasizing the basics and the CFO Conference focusing on key topics of the day. I encourage you to attend both conferences and enjoy the networking opportunity.

Past CFO Conferences have had presentations on Human Resource Challenges, Compensation, Performance Evaluations, and Recruitment. This year, we have an insurance cooperative presenting *"What you Need to Know About the Affordable Care Act."*

I, recently, received a phone call from an individual in my Linked-In network. He told me they were starting a cooperative named Our Health Data Cooperative, and wanted to know how to connect to a larger group. He said that too often our health data is controlled by health networks, and that we may not have as direct access to that information as many of the pharmaceutical companies. They felt the need to start a cooperative that will mine all of the members' health data, allowing for a greater understanding for the best treatment outcomes.

I also noticed an excellent article on Linked-In entitled "Feedback: The Breakfast of Champions" by Joel Peterson. Joel suggests that most businesses don't train their employees about how to give feedback. I would agree it is true, having worked in the cooperative system for over twenty years. Unfortunately, sometimes the result is that feedback doesn't truly represent our intent. **Here are ten examples Joel suggests, to improve feedback:**

1. Don't wing it: The words we choose matter, our attitude matters, as does the style with which we give our feedback. Thinking through our comments ahead of time is a huge help.
2. Lean positive: A positive message or a positive suggestion to improve is always received better than the "Don't do this" message. Joel says that "Dispensing Encouragement is Infectious."
3. Be specific: If we can't give specific examples, then the individual we are offering feedback to will probably just be confused. Specific examples narrow the focus and allows us to explain the problem or positive event.
4. Don't limit it to a big annual event: Encouraging regular and informal feedback builds moral. When you catch people in the moment, it always means more than after the fact.
5. Keep it cool: You are trying to communicate, not create drama.
6. Don't deluge: People can only process a couple of suggestions at once. Spread them out, especially after you have caught them in the moment.
7. If it's serious, say so: Occasionally, we must let someone know that they need to change something or they may be the change that is necessary.
8. Follow up: By noticing improvements when you see them, you'll reinforce that you are watching and care that they are trying to improve.
9. Think of feedback as a gift: Let the team member know that you care about their success.
10. It stays confidential: Feedback sessions are private.