



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

***Innovative Financial Strategies That Work:
Cooperative Producers, Inc.***

**Financial Strategy Case Study
of
Cooperative Producers, Inc.
Hastings, Nebraska**

**Prepared for
2011 K-State Symposium on Cooperative Issues
K-State Alumni Center
Manhattan, Kansas
August 30, 2011**

**By
Dr. David Barton
Arthur Capper Cooperative Center
Kansas State University**

Introduction

Cooperative Producers, Inc. (CPI) is a large grain marketing and farm supply local cooperative doing business in 13 counties located in South-Central Nebraska. CPI's headquarters is in Hastings and has at least 42 separate facilities in 33 different communities. CPI focuses on grain, agronomy and energy business, has grown due to mergers with neighboring co-ops, and has been relatively profitable. A large share of CPI's profits has come from local earnings, not regional cooperative patronage refunds or other income. In the four years, 2007-2010, CPI's sales increased from \$383.1 million to \$610.4 million and net income increased from \$8.8 in 2007 to \$12.7 million in 2010, with about 42% coming from local or operating income when extraordinary gains and losses related to acquisitions and investments are excluded. The 2011 fiscal year ended June 30 and sales were about \$700 million with \$500 million coming from grain and \$200 million from farm supplies. CPI employs about 450 full-time employees and 120 seasonal employees. It is one of the largest grain marketing companies in Nebraska.

Governance is in the hands of 4,200 voting stockholders, who elect a board of directors with 12 members. In addition, CPI's board appoints three associate directors, each with a three year term. In total, CPI serves over 10,000 farm and non-farm customers. The board hired the current CEO, Bob Fifield in 2007.

Financial performance has been relatively high and is expected to be high in the future. Return on equity has ranged from 8.5% in 2007 to as high as 26.6% in 2009 and has averaged about 17% over the last four years. Asset growth has also been strong, supporting the rapid sales increases. Net fixed assets have increased from \$41.7 million to \$55.2 million over this time. Outside investments in regional co-ops and joint venture companies have also increased substantially, in large part because regional co-op patronage refunds have been high but cash patronage refunds and cash redemptions have been relatively low from some of their largest regional investments. Investments increased from \$19.1 million in 2007 to \$31.7 million in 2010, an increase of \$12.6 million of which \$12.0 million of the increase is with regional co-ops.

Balance sheet liquidity and solvency have also been strong. Working capital increased from \$29.9 million to \$64.1 million, and debt to equity ranged from 45% in 2007 to 122% in 2008 and was back down to 70% in 2010. Asset growth has been financed with a mix of long-term debt and new equity investment created by retaining earnings as allocated retained patronage refunds and unallocated retained earnings. In 2008 a major shift in the debt mix was made by decreasing short-term or seasonal debt and increasing long-term debt to build working capital, a transition motivated by much more volatile prices in the commodity markets and the need to have higher levels of working capital. Total equity also increased from \$62.9 million in 2007 to \$89.8 million in 2010. See Exhibits 1 and 2.

CPI expects to continue growing by increasing market share and by expanding its marketing footprint and trade area through mergers. Corn production is growing in the area as it is in much of the Great Plains region of the country. It believes there will be a need for greater grain marketing and agronomy marketing capacity in the future.

The challenge for CPI will continue to be to sustain or improve profitability, maintain a strong balance sheet by financing growth with high proportions of new equity, and improve its income distribution and equity management programs as much as possible. It is clear to the leadership team, namely, the board of directors and executive management, the future will be more risky but filled with opportunity. CPI expects to rely on its core businesses, marketing grain and supplying agronomy inputs, for future profits.

CPI was the name used in 1979 to organize a joint venture company to market grain for six local co-ops. Over time those six co-ops merged together and in 2007 the two remaining co-ops owning CPI, Midland and Heartland, merged and assumed the name of CPI. Since the formation of the consolidated or “new” CPI two additional cooperatives merged into CPI in 2010, Farmers Cooperative Association at Red Cloud and Farmers Union Cooperative at Funk. CPI traces its origins prior to 1979 back to at least 13 different cooperatives, the oldest being Juniata organized in 1906. See Exhibit 3 depicting the history of unifications between 1979 and 2010.

Where are we?

The formation of new CPI in 2007 and the formation of its immediate predecessors, Midland and Heartland, resulted in a very complex equity management system. As cooperatives merged the allocated equity of the legacy companies were maintained as separate equity classes in most cases, and each class was managed with its own unique equity redemption program based on agreements made at the time of each merger. These agreements were honored through a succession of mergers of the six companies that formed the grain joint venture company, CPI, in 1979. This resulted in 13 separate equity classes following the formation of the new CPI in 2007. The equity classes and their unique equity redemption policies in 2008 are described in Exhibit 4 (labeled Table 1-X1.S0).

Nine of the 13 equity classes were also assigned to a “series” grouping with the series being in six sets, A through F. Equity management policy in 2008 was organized around managing each series. As noted in Exhibit 4, several different redemption programs were in use. Eleven of 13 classes were redeemed as an estate settlement. In addition, five of those 11 were redeemed using an age of patron redemption at age 65, 68 or 70. One of the eleven was also redeemed using a revolving fund.

The stated goal in 2008 was to redeem Series A or class F on a revolving fund basis with a length of 10 years by 2010. Class F was the equity class in which new equity investment from retained patronage refunds was placed. In 2008 it was being redeemed using estate settlements and an age of patron redemption at age 65, with the total amount due to those age 65 spread out as five equal payments over the next five years. This rate of redemption was equivalent to a revolving fund length of at least 20 years so CPI was not close to this goal and also was not using a revolving fund redemption method with this class.

There were also complicated interrelationships between equity classes as depicted in Exhibit 5. Some of CPI’s predecessors, like many Nebraska cooperatives, had adopted a policy of directly or indirectly separating allocated equity into two classes, “local” and “regional,” based on whether the source of the earnings used to create the equity was from local operations or from regional patronage refunds. The

intent was to redeem regional equity when the regional cooperative redeemed CPI's equity investment associated with the creation of the regional equity. This is a complicated process, considering that CPI did business with several regionals and each had its own unique cash patronage, equity investment and equity redemption program. Trying to synchronize this with CPI's own program and the multiple legacy equity classes from several different predecessors was extremely difficult. It is also not a recommended policy or justified from a cooperative finance point of view, all things considered, but it was a common practice with many Nebraska co-ops.

CPI simplified the relationship by assuming that 85% of four designated equity classes, F, I, L and P, was derived from local earnings and 15% was derived from regional earnings. Equity in the three classes, F, I and P, was eligible for redemption at age 65 but was paid on five equal parts over the next five years. To implement the 85% rule and the five parts rule 85% of this equity was transferred to the local facilitating class, G, and divided into five equal parts for redemption over the next five years. These three classes also had 15% transferred to class H or R that held regional branded equity. This equity was redeemed only as an estate settlement on the grounds that the Farmland Industries bankruptcy and subsequent investment write-down nullified the need to track future regional redemptions and redeem this class any faster than required by estate settlements. One other class, L, with a redemption at age 70 was also split by removing 15% of the equity of those reaching age 70 and transferring it to the regional facilitating class, H. Class L redeemed 100% of the remaining equity of those becoming age 70.

Where do we want to go?

Bob Fifield was hired as the new CEO of CPI in September 2007. After becoming familiar with CPI's complex equity management program he was convinced there had to be a more simple and effective way to manage equity at CPI. After discussing this issue with his board of directors and management team he invited Dr. David Barton at Kansas State University to study their unique situation and help board and management chose a better program. A project proposal was approved in April 2008 and a series of three major studies, designated Phase 1, 2 and 3, were completed over the next 16 months.

The Phase 1-3 projects were organized around addressing four broad strategic thinking questions:

1. Where are we?
2. Where do we want to go?
3. How do we get there?
4. What decisions need to be made now?

An ideal approach to answering this last question is to construct a concise written policy or set of related policies on financial strategies including (1) a profitability or income generation policy, (2) an income distribution policy, (3) an asset investment growth policy, (4) a balance sheet management policy and (5) an equity management policy, including investment and redemption. In general, the suggested order to consider the policy topics is in the order listed, recognizing that they are interrelated. The Phase 1-3 analyses generally followed this priority order when constructing and evaluating alternative strategies. The financial planning simulator accounted for all these factors in a comprehensive and simultaneous

way to produce pro forma financial statements, such as operating statements, balance sheets, cash flow statements, and other financial reports.

How do we get there?

A Phase 1 project report was made in August 2008 to CPI board's Equity Management Committee. It was comprised of three fundamental parts: (1) documentation of the current equity management program and equity structure, (2) presentation of the principles of co-op finance and equity management to the co-op's leaders, and (3) an evaluation of the past financial performance of CPI as an indicator of possible future performance to support a future equity management program. This led to a discussion of what options should be investigated as possible improvements to the current program.

CPI decided to complete a Phase 2 project that prepared comprehensive financial projections of the consequences of several alternative strategies. Between September 2008 and February 2009 five alternative strategies were evaluated, S0 through S4. The results of the Phase 2 study were presented at the board retreat on February 9, 2009. After discussing these results the board felt S3 most closely represented what they preferred but requested the evaluation of one additional strategy, S5. S5 would incorporate additional improvements to S3. The Equity Management Committee helped define the preferred strategy in detail and the results were presented to the committee as the Phase 3 report on August 24, 2009. The Phase 3 report included a written equity management policy recommendation the committee could take to the board for consideration, possible modification and final approval.

The equity management program used in 2007 and 2008 was defined as strategy S0 ("S zero"). Exhibits 4 and 5 describe the nature of strategy S0. The strategy selected as the preferred strategy, S5, is defined in Exhibits 6 and 7. In essence, CPI chose to eliminate the distinction between regional and local equity, redeem the old classes of equity by assigning a budget to each class as a percentage of the total redemption budget and to phase out the use of an age of patron redemption in the primary equity class, class F, and phase in a revolving fund redemption.

Balance sheet management was implemented to strengthen the balance sheet over time by improving solvency and by calculating a redemption budget for each future year based on the liquidity and solvency targets. Solvency was increased from 33% equity to assets in 2009 to 41% in 2017, an increase of 1% per year. After paying estate settlements, the remaining redemption budget would be split among the eligible equity classes as noted in Exhibit 6. The 10 year projection for 2008-2017 indicated all old classes eligible for redemptions would be redeemed to a zero balance over this time period, except class S (estimated to go to zero in 2020). Class F was projected to be on a 7 year revolving fund by 2017. Exhibit 8 shows how the balances in the equity classes changed between the historical year, 2007 and the 10 projected years, 2008-2017.

What decisions need to be made now?

One recommended outcome of an evaluation of alternative financial strategies is the construction of a policy statement that summarizes what decisions are being made now, the culmination of the four step

strategic thinking process. The policy recommendation made to the CPI board, with associated information from the Phase 3 report, is attached as Exhibit 9. A review of this policy recommendation will provide the essential details of the issues faced and the solutions proposed to the board. As noted in the recommendation:

“The overall objectives of the equity management project, chosen by the committee and recommended to the board, are to (1) apply balance sheet management principles including the use of a total redemption budget and a redemption budget for each equity class, (2) transition to fewer equity classes as fast as possible while being fair to all equity class owners, (3) drop the split to local and regional equity categories and (4) transition away from the use of the age of patron redemption method and towards the use of the revolving fund redemption method.”

This policy was approved by the board. However, subsequent to the adoption of this policy CPI entered into a syndicated loan package that had certain restrictive loan covenants that prevented the full implementation of this policy. The primary constraint was a limit on the amount of equity that could be redeemed in one year. The projection for 2009 assumed a redemption budget of approximately \$3 million but the loan covenants limited redemptions to \$800,000. CPI continues to work with its loan facility to adopt a balance sheet management philosophy that strictly manages working capital and solvency but allows any combination of cash patronage refunds and cash redemptions that fit within the balance sheet management parameters.

Also, the analyses and policy did not anticipate using the Section 199 Domestic Production Activities Deduction (DPAD). CPI utilized the deduction following its 2010 fiscal year with substantial financial benefit. Updated financial projections have not been prepared but it is anticipated that the additional improvement in its financial condition in 2011 will make it possible to implement the new equity management policy and still satisfy the loan covenants.

The change in income distribution made in 2010 with the incorporation of the Section 199 deduction is illustrated in Exhibit 10. One major change CPI made to the 2009 recommended policy for application in 2010 is the use of non-qualified distributions in combination with Section 199. The non-qualified option was considered previously but not chosen because of the cash flow cost of a transition from qualified to non-qualified distributions and redemptions. The transition to a more simple and effective program that continued to use a qualified distribution was preferred until such time as Class F could be switched to using the revolving fund method. However, the decision to use the Section 199 deduction and the advantages of combining it with a non-qualified distribution, led CPI to implement a non-qualified distribution sooner instead of later.

There are other issues related to income distribution, equity investment and equity management that could be explored by CPI. For example, in 2010 CPI had a patronage (“member”) Section 199 DPAD deduction available of about \$7.6 million. It made a distribution of patronage income to non-qualified patronage refunds of approximately \$4.0, creating taxable income at the co-op level, as illustrated in Exhibit 10. It also made a distribution of patronage income to unallocated retained earnings of \$3.1 million that also created taxable income. It utilized about \$7.1 million of DPAD to reduce the federal taxes on these two taxable income distributions to zero. However, it was left with unused patronage sourced DPAD of \$0.5 million.

The unused DPAD could have been used in two ways. First, CPI could have reduced the \$4.0 million cash patronage refund by \$0.5 million and instead added that amount to the non-qualified retained patronage refund distribution. This was considered but the tradition of paying a cash patronage refund and the existence of a restrictive loan covenant persuaded CPI to not use it in that way. CPI could have applied balance sheet management principles to reduce the cash patronage refund and instead increase total equity by \$0.5 million. It could have distributed \$0.5 million more to non-qualified retained patronage refunds, tax free, then redeem \$0.5 million more of equity, except for one problem. The loan covenant limited redemptions to \$800,000 and apparently the loan covenant limiting cash patronage refunds to \$4.0 million could not be swapped for an increase in redemption authority.

Those individual current patrons receiving the \$4.0 million as a 100% cash patronage refunds would not have necessarily been the same people as the previous patrons who could have received an additional \$0.5 million equity redemption of older retained patronage refunds. But there may be options that would keep everyone happy and also grow the pie of equity because it was distributed tax free. In other words, CPI was forced to leave money on the table, unused DPAD, by the loan covenants.

Second, CPI could have passed the unused DPAD through to its patrons. As Exhibit 10 shows, CPI did not pass the excess DPAD through because of concerns about the impact and because of time constraints in filing their taxes. However, it may be possible to file an amended return and increase the utilization of the unused DPAD.

Summary and Conclusions

CPI now has a flexible and effective policy in place. The board expects to evaluate its income distribution, balance sheet management and equity management policies each year as new challenges and opportunities present themselves and implement the philosophy behind the policy.

Everything is interrelated in a business like CPI and should be recognized to the extent possible in establishing finance policy. The business management functions of governance (organizational behavior and management), strategy, finance, operations, marketing and human resources are interrelated to each other. All five of the finance policy areas are interrelated and require the use of a comprehensive financial model to evaluate the policy alternatives, even if evaluated in a mental or subjective way, without rigorous quantitative analysis.

The leadership team believes its financial policies should be based on balance sheet management and should be flexible and robust so it can accommodate a variety of financial situations in the future, not just the financial performance assumptions used in the financial projections made in the Phase 2 and 3 projects. Financial performance in the future may be higher or lower than projected, asset investment growth may be higher or lower than projected, and government policy on taxation may change. For example, the Phase 2 and 3 projections did not include a direct estimate of the impact of the Section 199 tax benefit to CPI. This deduction provides a substantial benefit and had a significant impact on the balance sheet, cash flows including the redemption budget cash flow, and the ability to redeem equity under various redemption strategies. This tax benefit is a component of the income distribution

assumptions and the implied income distribution policy. Since Section 199 may be modified or eliminated in the future, future projections could evaluate and compare financial strategies with and without this benefit.

There are two key ideas to keep in mind when establishing financial policy and an implementation plan. First, the board of directors should maintain maximum flexibility within the boundaries of the law and CPI's bylaws. In a rapidly changing environment this makes it more likely the board can maximize the benefits to patrons who use, own and control the co-op. This is accomplished by clearly outlining the parameters of board discretion. Second, the board should review CPI's bylaws to confirm it has the authority to utilize all the different financial strategies it may want to implement without changing the bylaws. A change in bylaws may be required. If so, it normally requires a vote by the membership.

Exhibit 1

Cooperative Producers, Inc.
Hastings, NebraskaIncome Statements

Years ended November 30, 2008 & 2007 and Years ended June 30, 2009 (7 months) and 2010

	2010	2009	2008	2007
Grain Marketed	\$ 468,981,599	310,192,560	487,223,988	264,933,380
Cost of Grain Marketed	443,203,769	289,377,120	459,074,156	247,450,169
Gross Margins on Grain	25,777,830	20,815,440	28,149,832	17,483,211
Merchandise Sales	141,463,242	116,302,831	163,857,853	118,208,430
Cost of Merchandise Sold	124,335,685	114,233,753	147,617,895	106,120,886
Gross Margins on Merchandise	17,127,557	2,069,078	16,239,958	12,087,544
Total Sales	610,444,841	426,495,391	651,081,841	383,141,810
Total Cost of Sales	567,539,454	403,610,873	606,692,051	353,571,055
Total Gross Margins	42,905,387	22,884,518	44,389,790	29,570,755
Other Operating Revenue	23,878,116	10,675,277	18,234,712	12,110,110
Total Gross Income	66,783,503	33,559,795	62,624,502	41,680,865
Total Expenses	61,740,196	30,923,933	(56,438,672)	(41,474,498)
Net Income from Local Operations (NILO)	5,043,307	2,635,862	6,185,830	206,367
Other Income and Losses:				
Patronage refunds from other cooperatives	6,043,913	11,259,000	8,864,548	3,450,988
Rebates paid to others		(431,660)	(247,724)	(223,489)
Partnership income	954,478	290,147	(86,512)	627,036
Gain on sale of stock and treasury bills		(4,920)	232,295	2,604,431
Stock dividends			6,574	21,657
Gain on acquisitions of other companies and partnerships	2,545,101			
Impairment charge on investment	(1,000,100)			
Total Other Income (Loss)	8,543,392	11,112,567	8,769,181	6,480,623
Savings before income taxes	13,586,703	13,748,429	14,955,011	6,686,990
Income Taxes	895,182	1,378,752	305,492	1,360,000
Net Income	12,691,521	12,369,677	14,649,519	5,326,990
Increase in market value of marketable securities				3,505,556
Net comprehensive income	12,691,521	12,369,677	14,649,519	8,832,546
Distribution of Net Income:				
Cash patronage refunds payable		3,070,222	4,035,000	1,650,000
Members' equity credits		7,163,851	9,415,000	1,650,000
Total Patronage Refunds		10,234,073	13,450,000	3,300,000
Retained earnings		2,135,604	1,199,519	2,026,990
Restricted retained earnings - comprehensive income			0	3,505,556
Net Comprehensive income (NI)	\$12,691,521	\$12,369,677	\$14,649,519	\$8,832,546
Financial Performance				
Return on Sales (NI/TS)	2.1%	2.9%	2.3%	1.4%
Return on Local Assets ((NILO)/(TA-TI))	2.4%	2.0%	2.0%	0.1%
Return on Equity (NI/ME)	14.1%	26.7%	20.6%	8.5%

Exhibit 2
Cooperative Producers, Inc.
Hastings, Nebraska

BALANCE SHEET
November 30, 2008 and 2007 and June 30, 2010 and 2009

ASSETS

	2010	2009	2008	2007
Total Current Assets	151,412,893	174,702,445	255,839,210	276,617,774
Total Investments	31,686,927	27,447,645	23,964,163	19,141,305
Net Property and Equipment	55,245,703	49,273,914	48,151,975	41,654,664
Total Other Assets	2,178,259	321,502	390,517	489,956
Total Assets	240,523,782	251,745,506	328,345,865	337,903,699

LIABILITIES AND MEMBERS' EQUITY

	2010	2009	2008	2007
Total Current Liabilities	87,307,277	87,186,544	170,234,756	246,750,672
Total Long-Term Liabilities	63,251,931	84,908,321	86,934,748	28,276,855
Capital stock	423,700	393,300	290,100	183,400
Certificates of participation	512,713	490,613	463,113	252,900
Members' equity credits	42,146,337	36,768,174	30,628,727	22,277,594
Restricted retained earnings		149,565	125,249	3,505,556
Retained Earnings	46,672,087	41,848,989	39,669,173	36,656,722
Total Members' Equity	89,754,837	79,650,641	71,176,362	62,876,172
Total Liabilities and Members' Equity	240,314,045	251,745,506	328,345,866	337,903,699

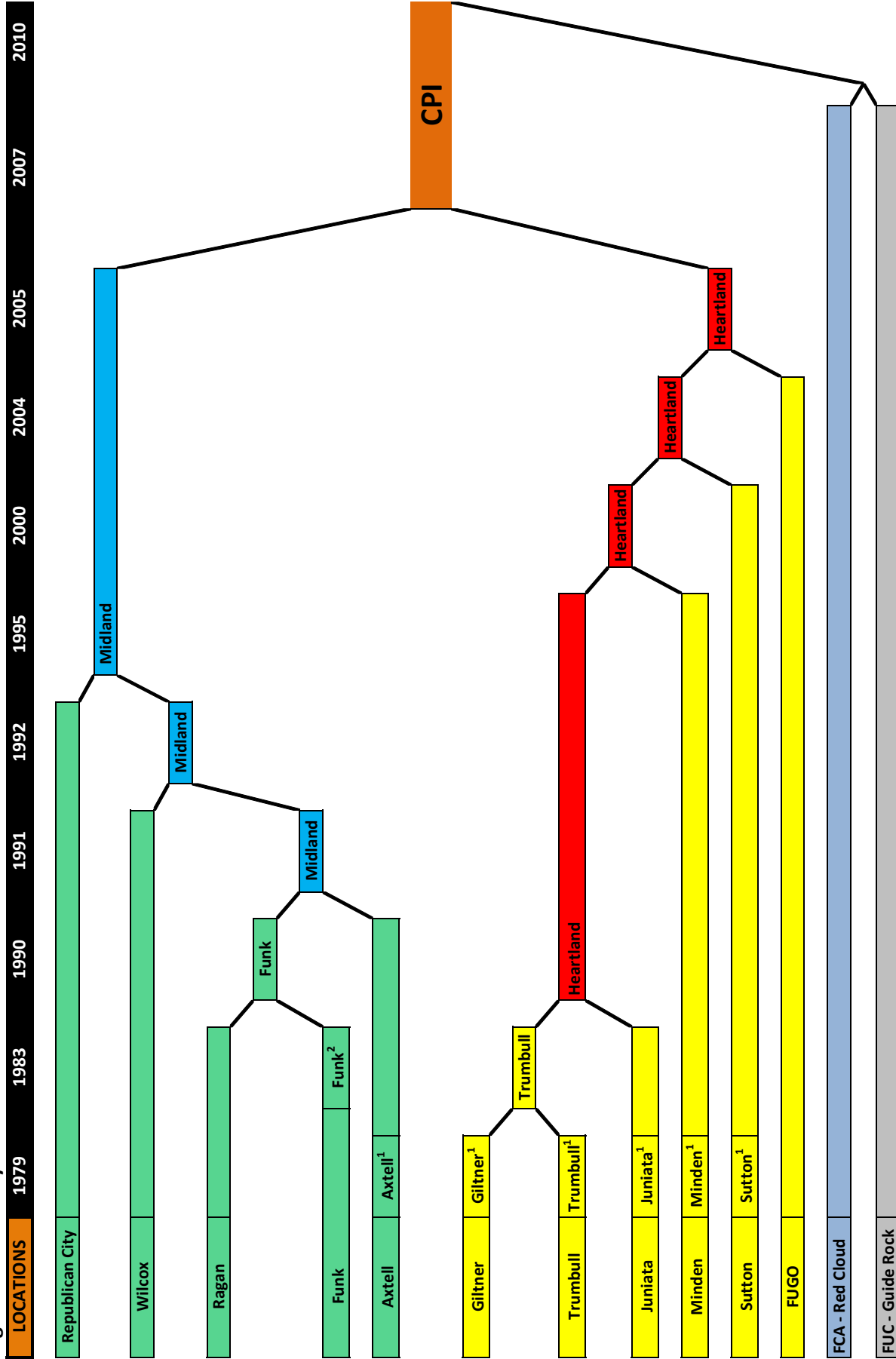
Liquidity

Working capital (CA-CL)	\$64,105,616	\$87,515,901	\$85,604,454	\$29,867,102
Current ratio (CA/CL)	1.7	2.0	1.5	1.1

Solvency

Equity to Assets (ME/TA)	37.3%	31.6%	21.7%	18.6%
Adjusted Equity to Assets ((ME)/(TA-CL))	58.6%	48.4%	45.0%	69.0%
Debt to Equity (LTL/ME)	70.5%	106.6%	122.1%	45.0%
Retained Earnings to Equity (RE/ME)	52.0%	52.5%	55.7%	58.3%

Figure 1. CPI History of Unifications: 1979-2010



Old CPI JV (at Hastings)

¹ Original six formed CPI in 1979

² Funk buys Giltner CPI share from Trumbull in 1983

Table 1-X1.S0. CPI Equity Classes and Redemption Policies: Current Program Equity Redemption Policy

Equity Class and Description	Series	Beginning Equity: 2008			Equity Redemption Policy: Priority by Method (P:M)						Comments	
		Source	Taxation	Amount	Category	ES	APIO Age & %	APIP	RF	BC		PP
Class A COMMON STOCK		Purchased Stock	Q	\$181,400.00	Fixed	1:ES						Voting member-patrons purchase \$100
Class B CERT PART		Purchased Stock	Q	\$249,812.50	Fixed	1:ES						Non-voting patrons purchase \$100
Class F MEC-2000 FORWARD	A	Earned RPR	Q	\$3,784,356.82	Fixed	1:ES	2:age 65 (85%)					At age 65, transfer 85% to Class G, 15% to Class H
Class G OVER 65-65		Earned RPR	Q	\$813,933.21	Fixed	1:ES		2:5 years				At age 65, transfers from Class F, I, P for "local" component
Class H LONG TERM INVESTMENT-24		Earned RPR	Q	\$690,208.56	Fixed	1:ES						At age 65, transfers from Class F, I, L for "regional" component
Class I OLD HC STOCK CREDITS-18	B	Earned RPR	Q	\$5,321,133.26	Fixed	1:ES	2:age 65 (85%)					At age 65, transfer 85% to Class G, 15% to Class H
Class L MINDEN STOCK CREDITS-71	C	Earned RPR	Q	\$1,471,123.88	Fixed	1:ES	2:age 70 (85%)					At age 70, transfer 15% to Class H, redeem 85% (balance)
Class N MINDEN INACTIVE EQUITY-	C	Earned RPR	Q	\$40,335.66	Frozen							Bad debt lien
Class P MEC - OLD SUTTON	D	Earned RPR	Q	\$2,554,891.24	Fixed	1:ES	2:age 65 (85%)					At age 65, transfer 85% to Class G, 15% to class R
Class Q MEC - SUTTON RESTRICTED	D	Earned RPR	Q	\$34,278.75	Frozen							Bad debt lien
Class R MEC - SUTTON REGIONAL	D	Earned RPR	Q	\$340,558.36	Fixed	1:ES						Estates only
Class S MEC-FARMERS UNION GAS/O	E	Earned RPR	Q	\$1,473,377.77	Fixed	1:ES						Estates only
Class T MEC - OLD MIDLAND	F	Earned RPR	Q	\$4,982,387.31	Fixed	1:ES	2:age 68 (100%)					At age 68, redeem 100%
TOTAL:				\$21,937,797.32								

¹ Current policy for Series A is a goal of establishing a 10-year revolving fund to begin in 2010. It is not clearly stated if this replaces or supplements the current age 65 age of patron redemption.

² Class G is restructured and redeemed by the revolving fund method to accomplish a uniform 5-year payout. The transferred equity is structured into a series of 5 equal parts spread over 5 years. See Table 6-12.9.

Exhibit 5

Strategies S0-S4

Transfers occur in 2008-2017 except 85% and/or 15% transfers are suspended when L goes to zero (in 2013 for S3). This allows G, H and R to be redeemed to zero.

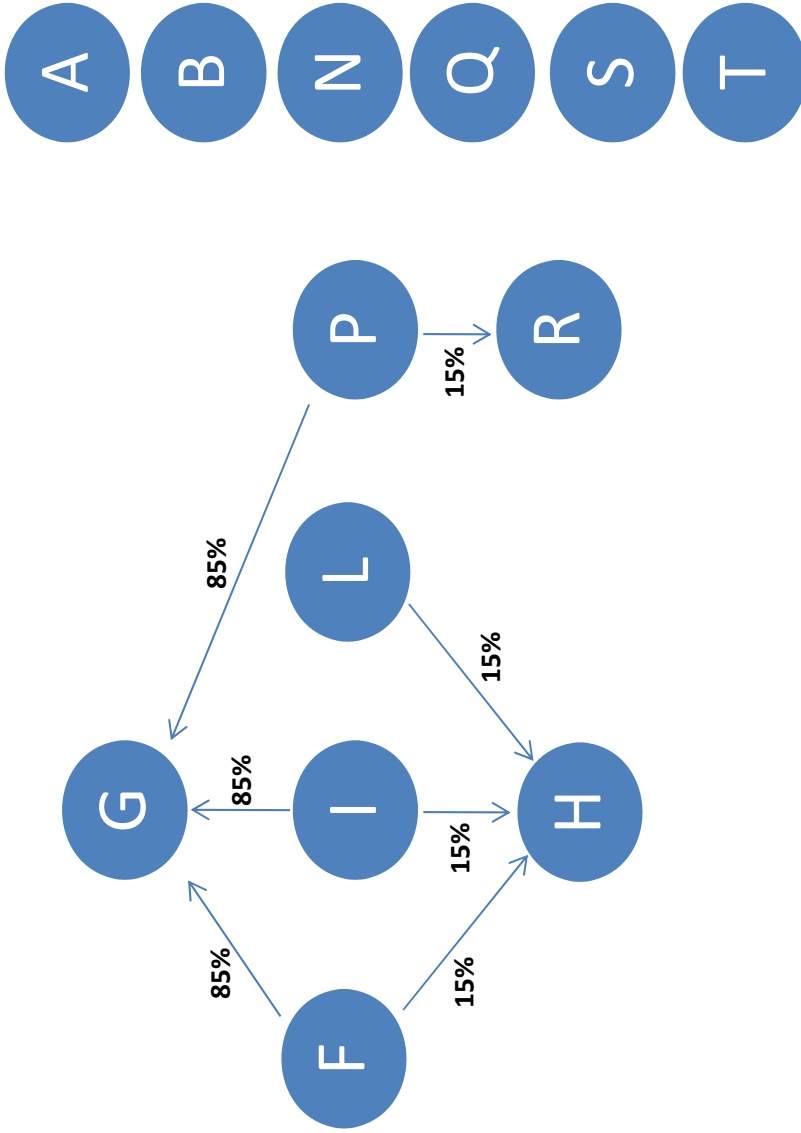


Exhibit 6

Table 1-X7.S5. CPI Equity Redemption Program

Equity Class and Description (R: Restructured)	Beginning Equity: 2008		Equity Redemption Policy: Claim on Redemption Budget Residual (Outside or Inside) and Priority by Method (P:M)							Flexible Equity Redemption Budget Split ¹		
	Amount	Percent	Category	ES ² Out	AP/O Age & % Outside	AP/P	RF Inside	BC	PP In	Amount	Equity Percent	Residual Split Rule
Class A COMMON STOCK	\$181,400.00	0.83%	Fixed	1:ES								
Class B CERT PART	\$249,812.50	1.14%	Fixed	1:ES								
Class F MEC-2000 FORWARD	\$3,784,356.82	17.25%	Flexible	1:ES	2:age 65 (100%)		3:X years			\$3,784,356.82	19.77%	19.77%
Class G OVER 65-65	\$813,933.21	3.71%	Fixed	1:ES			2:5 years					
Class H LONG TERM INVESTMENT-24	\$690,208.56	3.15%	Flexible	1:ES			2:X years			\$690,208.56	3.61%	3.61%
Class I OLD HC STOCK CREDITS-18 (R)	\$5,321,133.26	24.26%	Flexible	1:ES	2:age 65 (100%)		3:X years			\$5,321,133.26	27.79%	27.79%
Class L MINDEN STOCK CREDITS-71 (R)	\$1,471,123.88	6.71%	Flexible	1:ES	2:age 70 (100%)		3:X years			\$1,471,123.88	7.68%	7.68%
Class N MINDEN INACTIVE EQUITY-	\$40,335.66	0.18%	Frozen									
Class P MEC - OLD SUTTON (R)	\$2,554,891.24	11.65%	Flexible	1:ES	2:age 65 (100%)		3:X years			\$2,554,891.24	13.35%	13.35%
Class Q MEC - SUTTON RESTRICTED	\$34,278.75	0.16%	Frozen									
Class R MEC - SUTTON REGIONAL (R)	\$340,558.36	1.55%	Flexible	1:ES			2:X years			\$340,558.36	1.78%	1.78%
Class S MEC-FARMERS UNION GAS/O (R)	\$1,473,377.77	6.72%	Fixed/Flex	1:ES			2:X years					
Class T MEC - OLD MIDLAND (R)	\$4,982,387.31	22.71%	Flexible	1:ES	2:age 68 (100%)		3:X years			\$4,982,387.31	26.02%	26.02%
TOTAL:	\$21,937,797.32	100.00%								\$19,144,659.43	100.00%	100.00%

¹ Redemptions for all classes in 2008 are the same as used in S0 since it is history and a redemption budget is not calculated. Redemptions in 2009-2017 use a redemption budget based on an equity to asset target. S5 is similar to S3 but differs by moving the second priority age of patron redemptions from "inside" to "outside" the residual redemption budget for each class and by restricting class S redemptions as noted. Note that six equity classes are restructured to facilitate use of a revolving fund (I, L, P, R, S, T). Class H could have been restructured but was not. Class H appears suitable as is and is also using a revolving fund (RF) redemption. Five flexible classes (F, I, L, P, T) receive age of patron redemptions directly or indirectly by a transfer to another class and are assumed to be eligible to receive additional redemptions using a revolving fund (RF) if funds are available. Two flexible classes are reservoirs for regional equity, H and R, and receive RF redemptions. Class S is a special case, starting as fixed in 2008 with only estate settlements (ES) but changing to flexible and becoming eligible for an RF redemption in the year following when all other flexible classes except F are redeemed to zero. RF redemptions for S begin in 2015. In S5 a total equity redemption budget is calculated prior to any redemptions. First priority estate settlement redemptions and second priority age of patron redemptions are fixed or "outside the budget". They are made and deducted from the total redemption budget to determine a residual equity redemption budget. If a residual remains, it is split as noted to each of the eligible flexible equity classes. For each class, second priority and the third priority RF redemptions are made until the residual budget for that class is expended.

² In the S5 projections no estate settlements were calculated for classes A and B. Under current policy, A and B are eligible for estate settlement redemptions and this would continue in the future.

Strategy S5

(1) 2008: Same as S0-S4

(2) 2009 - 2017: For F, I and P transfer 100% to G. No 15% transfers to H & R. Phase out transfers from F to G as per schedule to phase out AP/O and phase in RF.

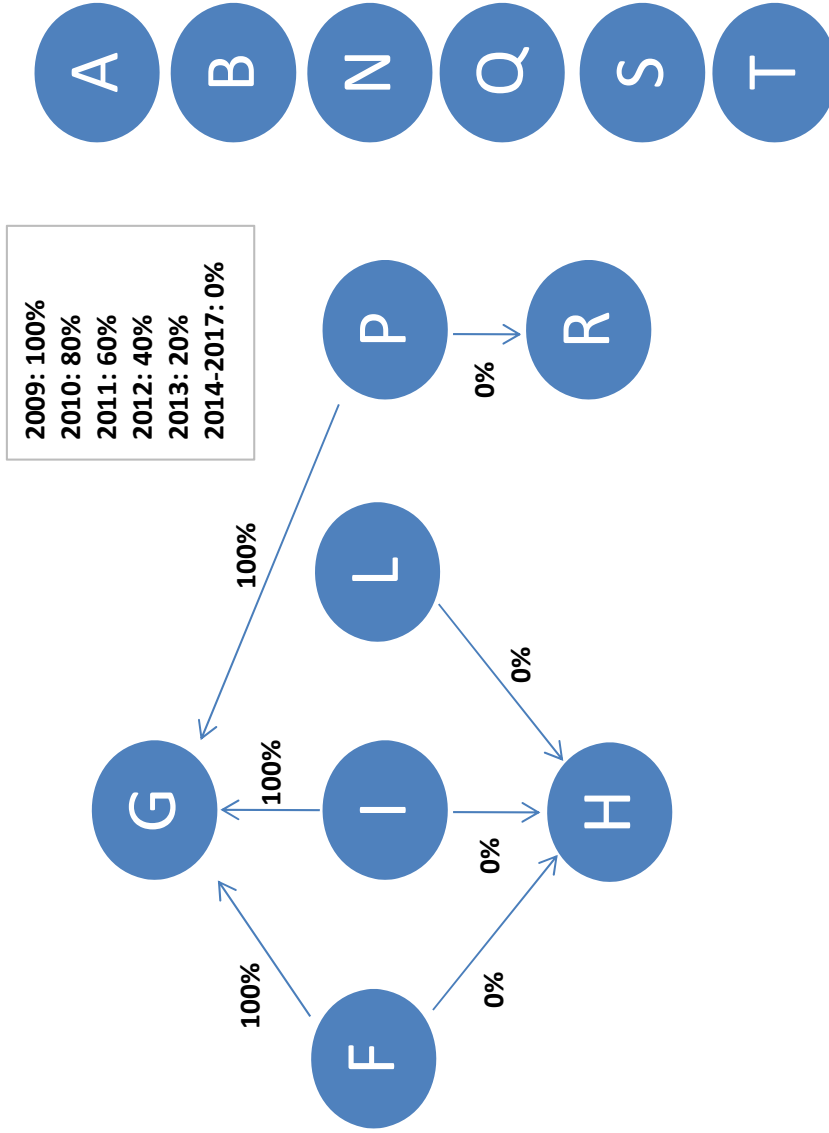


Exhibit 9
CPI Board of Directors
Equity Management Committee
Report of Meeting Held August 24, 2009

Equity Management Policy Recommendation

The committee met on Monday, August 24, 2009 in Hastings from 10:00a to 3:00p with Dr. David Barton to review the Phase 3 equity management report summarizing the results of the Phase 3 analysis conducted to evaluate a new strategy or policy, designated strategy S5, and to prepare a recommendation to the board on the preferable strategies and future equity management policy.

Directors attending: Jeff Loschen, Dean Luehr, Larry Landstrom, Kevin Raun
Management attending: Bob Fifield, Chuck Trutna

The overall objectives of the equity management project, chosen by the committee and recommended to the board, are to (1) apply balance sheet management principles including the use of liquidity and solvency targets with a trend to higher solvency over time, calculation of a total redemption budget and a redemption budget for each equity class, (2) transition to fewer equity classes as fast as possible while being fair to all equity class owners, (3) drop the split to local and regional equity categories and (4) transition away from the use of the age of patron redemption method and towards the use of the revolving fund redemption method.

The financial projections for strategy S5 achieve all of these objectives. According to the current projections made for the Phase 3 analysis all old equity classes will be redeemed to zero by 2017, except the currently active class F and the frozen equity classes, N and Q. Class F is projected to be on a 7 year revolving fund, with 2011-2017 equity remaining, by the end of the 10 year projection in 2017.

All of the proposed changes to the equity management program will be handled in a way that is fair and equitable to current and future equity owners. Ideally, a revised policy will be approved by the CPI board at its August 26, 2009 board meeting. Selected elements will be ready to implement with the 2009 equity redemption payments and all elements will be ready to implement with the 2010 equity redemption payments.

Selected portions of the Phase 2 analysis and report previously presented at the board retreat on February 9 were reviewed on July 16, 2009 by the committee. It was concluded the financial projections were still relevant and consistent with current and expected conditions in the future and therefore did not need significant revisions. Minor revisions and updates were made by relying on the final audited 2008 results and the preliminary 2009 year end results. Five strategies were evaluated in the Phase 2 report, S0-S4. It was concluded that strategy S3 was the most preferred strategy out of the five considered. But some revisions were needed and were designated as strategy S5. Strategy S3 is described in detail on slides 174-180 in the executive summary slide set along with strategies S1-S4 in the Phase 2 report. The elements of strategy S5 are described in the following paragraphs.

David Barton was instructed at the conclusion of the last committee meeting on July 16 to prepare an evaluation of S5. That evaluation was presented to the committee on August 24. The proposed elements of the new strategy were approved by the board at its July 22 board meeting. The proposed elements are described below.

Balance sheet management is applied with the objective of strengthening the solvency of the balance sheet over time. The financial projections assumed that solvency, measured by equity to assets, would be increased one percent each year, starting with a value of 33% in 2009 and ending with 41% in 2017, an increase of 1% each year. This is an increase of 4 percentage points from the Phase 2 analysis which started at a value of 29% in 2009. This increase was made possible by the change in financial conditions and performance achieved in 2009 and was viewed as appropriate, given that one objective related to balance sheet management is to strengthen the balance sheet solvency.

Exhibit 9

The value of 33% as a starting place is selected to provide a reasonable redemption budget in 2009, given where the balance sheet begins and ends in 2009. The consequence of setting a solvency target is that a total redemption budget is calculated at the conclusion of each fiscal year. Since CPI approves and pays estate settlements annually instead of monthly, the budget is applied to all equity redemptions for all eligible classes. Since the 2009 year has concluded the board will need to determine a redemption budget for the next cycle of redemptions. The solvency target of 33% assumes a budget of approximately \$3,000,000 is selected. This is much higher than previous redemption budgets but is justified and sustainable based on actual 2009 and projected financial performance. It also facilitates the redemption of old equities as fast as possible and the transition to a more simple equity structure. The S5 projected redemption cash flow in 2009 is \$3,052,576.90.

But the board would have full discretion in setting the actual solvency target value to use following the close of each fiscal year, including 2009. In other words, the board would continue to have full discretion to manage the balance sheet and the redemption budget within the requirements for liquidity (working capital) and solvency (equity to assets or debt to equity) established in its banking facility with lenders. The board would have the option of instituting more restrictive liquidity and solvency requirements than those agreed to in the banking facility. The liquidity and solvency requirements selected in S5 are believed to be more restrictive or demanding than would be required by lenders.

A new strategy, S5, was constructed and evaluated based on the recommended modifications made to S3. The committee is recommending to the CPI board that the policy represented in S5 be approved as future policy. The S5 policy is as follows.

Income distribution policy would have the following elements and is illustrated in Figure 1. It is identified as the "25-30-70" policy.

1. Total pre-tax income has two components, non-patronage income and patronage income.
2. The first objective is to distribute 25% of pre-tax total income to unallocated retained earnings. The distribution will be calculated as follows:
 - a. First, non-patronage income will be distributed to unallocated retained earnings (non-patronage sourced). Assume it is 10% as in the projections.
 - b. Second, if non-patronage income is less than 25% distribute additional patronage income to unallocated retained earnings to achieve the minimum. Under these assumptions the additional distribution would be 16.67% of patronage income (90% of 16.67% equals 15%).
3. Of the remaining patronage income distribute 100% of it as qualified patronage refunds and divide it as follows:
 - a. First, distribute 30% as cash patronage refunds.
 - b. Second, distribute 70% as retained patronage refunds to Class F member equity credits.

An option of shifting from qualified to nonqualified retained patronage refund distributions was discussed but not recommended by the committee at this time. However, it would be relatively easy to construct and evaluate another strategy, say S6, that is identical to S5 except for the shift to nonqualified retained patronage refund distributions beginning in 2010 or later. One possible split is to distribute 25% of patronage refunds as qualified cash patronage refunds and 75% as nonqualified retained patronage refunds. The qualified cash patronage refunds would be distributed as a "100%" cash patronage refund. There are a number of other possibilities that could be evaluated if the board is interested. Even if there is strong interest in using a nonqualified distribution it may be wise to wait until the old equity classes are redeemed and a more simple equity structure is in place, with Class F as the primary class. Then the transition could be made by introducing a new nonqualified class, such as X, and class F would be redeemed to zero over the next several years, leaving only X as the primary class of member equity credits.

The committee also recommends that selected equity classes be restructured to facilitate the optimum use of a revolving fund redemption method in the future. Six equity classes have large equity "lumps" in certain years of distribution or retention. That year in each class was used to accumulate all the equity from that year and prior years of business. Those aggregations usually occurred when shifting to a new accounting system or when merging

Exhibit 9

into a successor company. As a result accurate historical detail was lost, making it more difficult to use a revolving fund method that operates by redeeming the oldest equity first.

David Barton has created and used a scientifically sound method to spread that old equity out to previous years based on the life cycle pattern of business the average producer-patron does with a co-op over the life of the producer using a relationship illustrated in Figure 2. He has used this method successfully with several other cooperatives that had similar problems. The classes and the oldest year retained with large accumulations of equity are: I (1989, after shifting to make the years retained consistent with other classes), L (2000), P (2003), R (2003), S (2005), T (1997). In addition, class H is similar to R as a reservoir for regional equity transfers and could also be restructured. However, an examination of H suggests it could be left as is since no big lumps occur in any one year and it is suitable to use a revolving fund to redeem class H in its current form. Strategy S5 restructured the six equity classes noted and used a revolving fund to help redeem all seven classes, including class H.

Strategy S5 is identical to strategy S3 except for five changes. First, the age of patron redemptions to each eligible class will be “outside” the “residual” budget for each individual equity class that uses the age of patron method, instead of inside the budget as assumed by S3. In simple terms, this means each equity class receives any estate settlement redemption and any age of patron redemption due to owners “off the top” of the total redemption budget. Then whatever is left over in the total budget after these higher priority redemptions are made is the residual total budget. It is divided among the eligible “flexible” equity classes as shown in Table 1 to create individual class residual budgets for each class. Only the revolving fund redemption for each eligible class would be controlled by the residual budget assigned each class.

Second, the age of patron method will be phased out from future use in the active and continuing primary equity class, Class F. As a result Class F, where new allocated equity is placed, will end up using only two redemption methods after the transition: estate settlements and revolving fund. This assumes that the revolving fund method is preferred over the age of patron method in the long run for class F. The phase-out pays a selected percentage of the equity eligible for an age of patron redemption instead of always paying 100% as in the past. The phase-out schedule is as follows, by fiscal year: 2009 (100%), 2010 (80%), 2011 (60%), 2012 (40%), 2013 (20%), and 2014 and forward (0%). This phase-out is applied when calculating the size of the transfer being made from Class F to Class G for those who become 65 years old. The recommended phase-out schedule is relatively aggressive but reasonable and fair, given the fact that most patron-owners do not have large sums currently invested in Class F since this equity class is relatively new. Also, the sooner the transition is made the sooner a very large share of active patrons will receive a significant revolving fund redemption from Class F.

Third, the six classes of equity noted above will be restructured to allow a more effective use of the revolving fund method and accelerate their redemption to a zero balance. This will be done prior to making the next cycle of redemptions.

Fourth, the split to local and regional equity using the 85-15 rule will be stopped in 2009 (immediately). No additional transfers will be made into the regional classes, H and R. The old equity in these classes will be redeemed using a combination of estates settlements and a revolving fund. The revolving fund redemption is based on the share of the residual redemption budget each class receives.

Fifth, Class S (FUGO) will only receive estate settlements, as currently practiced and agreed to with the merger. This will continue until all other classes, except F and the frozen classes, N and Q, are redeemed to zero. Then a more generous policy will be applied. In the year after the other classes are redeemed to a zero balance, which the projections suggest is 2015, class S will become eligible for a revolving fund redemption. (The equity class will be restructured and ready to use a revolving fund.) A new percentage share of the residual budget will be calculated when class S becomes eligible for additional redemptions based on the total equity contribution this class is making to financing the assets of CPI compared to class F. We estimated that share would be 3% and used this in our projections beginning in 2015.

Table 1-X7.S5. CPI Equity Redemption Program

Equity Class and Description (R: Restructured)	Beginning Equity: 2008		Equity Redemption Policy: Claim on Redemption Budget Residual (Outside or Inside) and Priority by Method (P:M)						Flexible Equity Redemption Budget Split ¹			
	Amount	Percent	Category	ES ² Out	AP/O Age & % Outside	AP/P	RF Inside	BC	PP In	Amount	Equity Percent	Residual Split Rule
Class A COMMON STOCK	\$181,400.00	0.83%	Fixed	1:ES								
Class B CERT PART	\$249,812.50	1.14%	Fixed	1:ES								
Class F MEC-2000 FORWARD	\$3,784,356.82	17.25%	Flexible	1:ES	2:age 65 (100%)		3:X years			\$3,784,356.82	19.77%	19.77%
Class G OVER 65-65	\$813,933.21	3.71%	Fixed	1:ES			2:5 years					
Class H LONG TERM INVESTMENT-24	\$690,208.56	3.15%	Flexible	1:ES			2:X years			\$690,208.56	3.61%	3.61%
Class I OLD HC STOCK CREDITS-18 (R)	\$5,321,133.26	24.26%	Flexible	1:ES	2:age 65 (100%)		3:X years			\$5,321,133.26	27.79%	27.79%
Class L MINDEN STOCK CREDITS-71 (R)	\$1,471,123.88	6.71%	Flexible	1:ES	2:age 70 (100%)		3:X years			\$1,471,123.88	7.68%	7.68%
Class N MINDEN INACTIVE EQUITY-	\$40,335.66	0.18%	Frozen									
Class P MEC - OLD SUTTON (R)	\$2,554,891.24	11.65%	Flexible	1:ES	2:age 65 (100%)		3:X years			\$2,554,891.24	13.35%	13.35%
Class Q MEC - SUTTON RESTRICTED	\$34,278.75	0.16%	Frozen									
Class R MEC - SUTTON REGIONAL (R)	\$340,558.36	1.55%	Flexible	1:ES			2:X years			\$340,558.36	1.78%	1.78%
Class S MEC-FARMERS UNION GAS/O (R)	\$1,473,377.77	6.72%	Fixed/Flex	1:ES			2:X years					
Class T MEC - OLD MIDLAND (R)	\$4,982,387.31	22.71%	Flexible	1:ES	2:age 68 (100%)		3:X years			\$4,982,387.31	26.02%	26.02%
TOTAL:	\$21,937,797.32	100.00%								\$19,144,659.43	100.00%	100.00%

¹ Redemptions for all classes in 2008 are the same as used in S0 since it is history and a redemption budget is not calculated. Redemptions in 2009-2017 use a redemption budget based on an equity to asset target. S5 is similar to S3 but differs by moving the second priority age of patron redemptions from "inside" to "outside" the residual redemption budget for each class and by restricting class S redemptions as noted. Note that six equity classes are restructured to facilitate use of a revolving fund (I, L, P, R, S, T). Class H could have been restructured but was not. Class H appears suitable as is and is also using a revolving fund (RF) redemption. Five flexible classes (F, I, L, P, T) receive age of patron redemptions directly or indirectly by a transfer to another class and are assumed to be eligible to receive additional redemptions using a revolving fund (RF) if funds are available. Two flexible classes are reservoirs for regional equity, H and R, and receive RF redemptions. Class S is a special case, starting as fixed in 2008 with only estate settlements (ES) but changing to flexible and becoming eligible for an RF redemption in the year following when all other flexible classes except F are redeemed to zero. RF redemptions for S begin in 2015. In S5 a total equity redemption budget is calculated prior to any redemptions. First priority estate settlement redemptions and second priority age of patron redemptions are fixed or "outside the budget". They are made and deducted from the total redemption budget to determine a residual equity redemption budget. If a residual remains, it is split as noted to each of the eligible flexible equity classes. For each class, second priority and the third priority RF redemptions are made until the residual budget for that class is expended.

² In the S5 projections no estate settlements were calculated for classes A and B. Under current policy, A and B are eligible for estate settlement redemptions and this would continue in the future.

Figure 1. Barton Cooperative Income Distribution Model: CPI S5 FYE Distribution Policy "25-30-70"

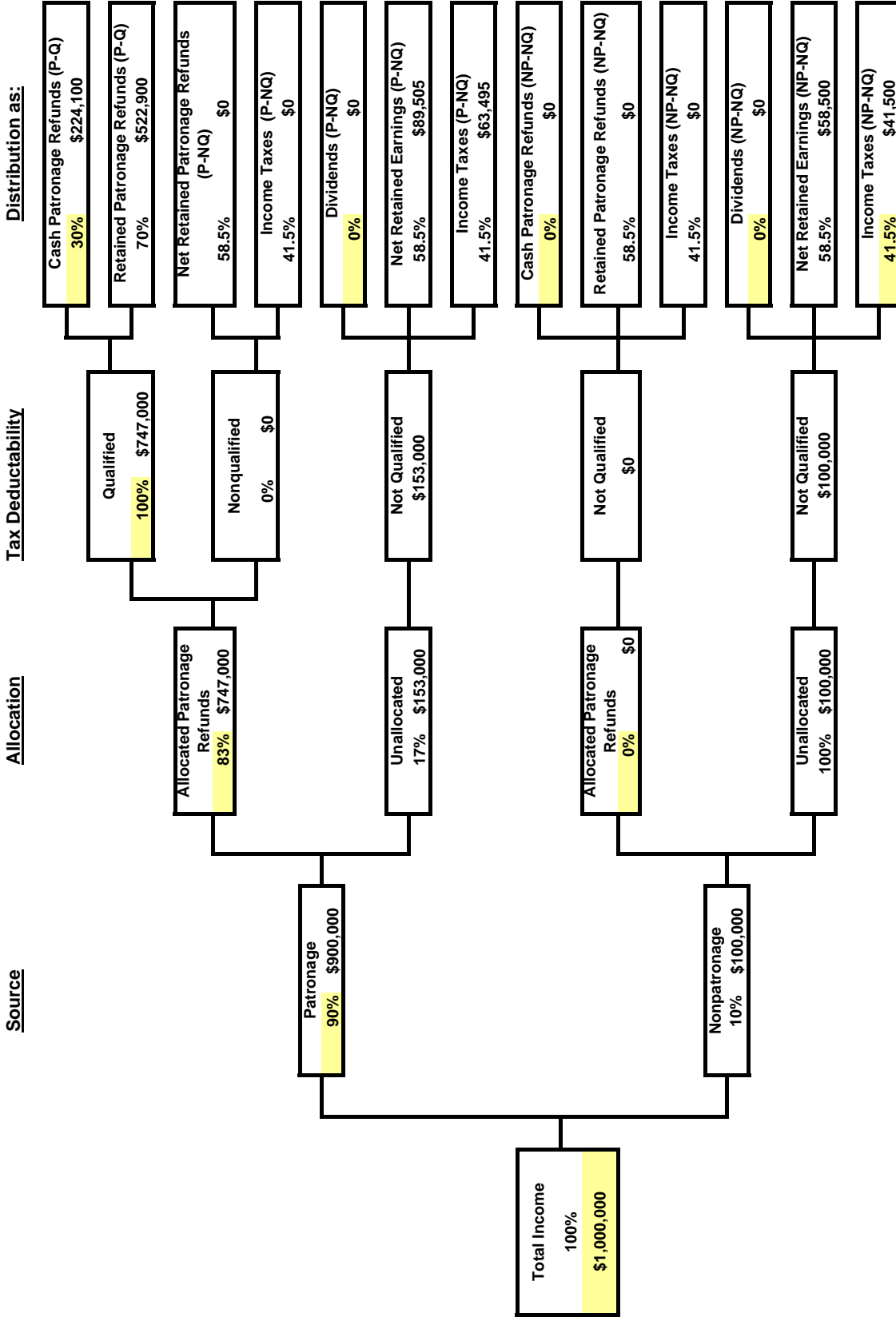
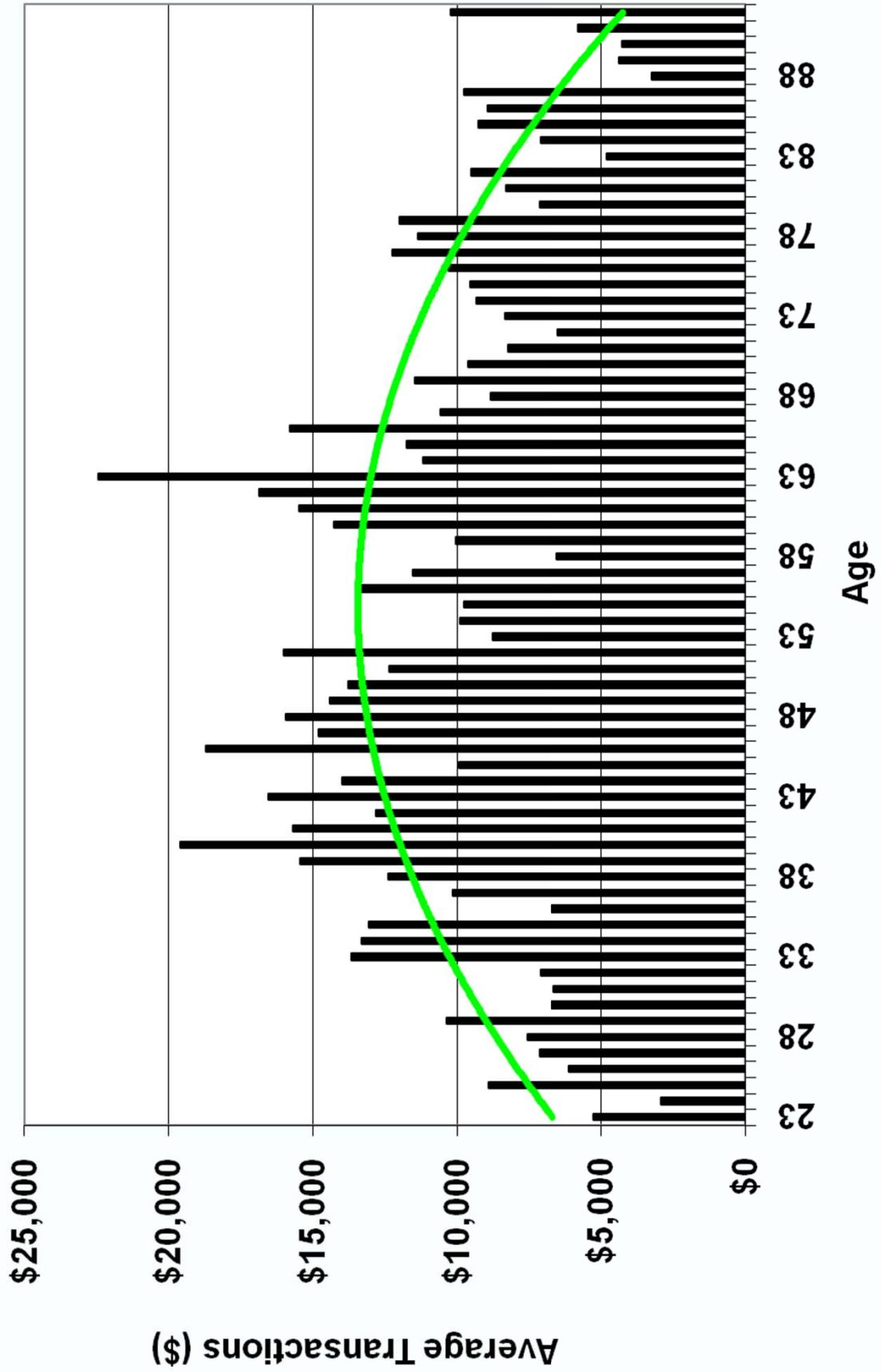
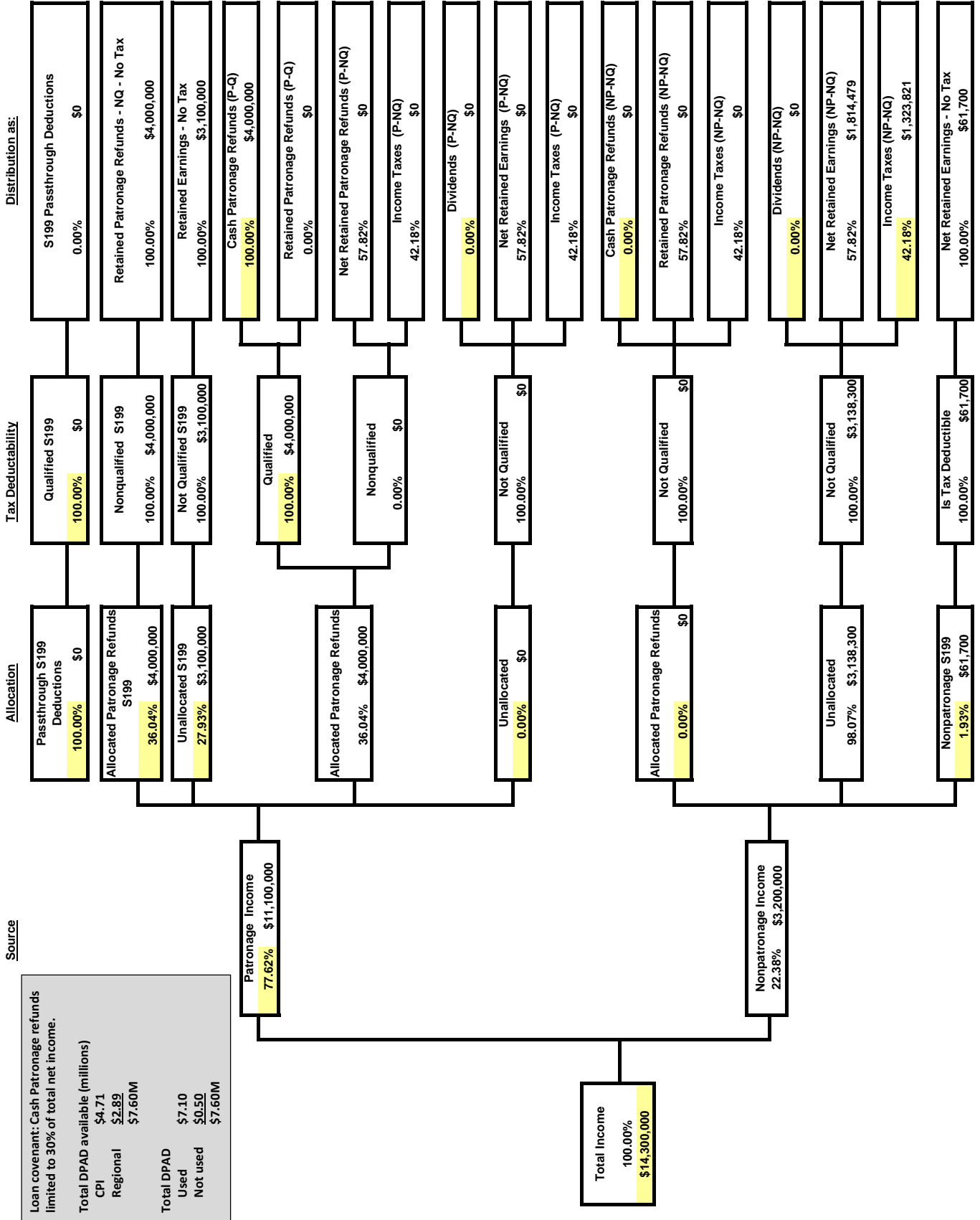


Figure 2

Business by Age of Customer, FY 1998



Barton Cooperative Income Distribution Model with Section 199: CPI 2010 Tax Basis



Loan covenant: Cash Patronage refunds limited to 30% of total net income.

Total DPAD available (millions)

CPI	\$4.71
Regional	\$2.89
Total	\$7.60M

Total DPAD Used: \$7.10

Total DPAD Not used: \$0.50

Total DPAD Available: \$7.60M