

NEBRASKA COOPERATIVES

Trade Receivables in Nebraska Cooperatives

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Many Nebraska cooperatives offer retail trade credit when patrons make bulk input purchases. Trade credit helps individual patrons and the overall cooperative membership. These benefits can translate to enhanced balance sheet strength and, indirectly, increased patron financial returns. Cooperative management balances the importance of these benefits with the risks of nonpayment.

Changes in agricultural prices can change the health of a cooperative's trade receivable portfolio. The following table summarizes trade receivables in a sample of 15 Nebraska cooperatives.

| Nebraska Cooperatives – Selected Averages ¹ , 2015 - 2018 | | | | |
|--|------------------|------------------|------------------|------------------|
| | Nebraska 2015 | Nebraska 2016 | Nebraska 2017 | Nebraska 2018 |
| Trade receivables as percent of input sales ² | 6.41% | 6.46% | 7.68% | 8.10% |
| Allowance for doubtful accounts as percent of trade receivables | 3.16% | 6.23% | 5.68% | 5.95% |
| Allowance for doubtful accounts as percent of input sales | 0.20% | 0.40% | 0.44% | 0.48% |
| Accounts over 90 days as percent of trade receivables | NA ³ | 7.27% | 1.04% | 6.15% |
| Bad debt expense as percent of trade receivables | 0.24% | 0.88% | 0.37% | 0.97% |
| <i>Notes</i> | | | | |
| 1. Trade receivables obtained from "Trade" category of receivables on the balance sheet. | | | | |
| 2. Input sales calculated as total sales less grain sales. | | | | |
| 3. 2015 data for accounts over 90 days were not available. | | | | |

Key results

1. As a percent of input sales, trade receivables have steadily increased. More credit is being made available, but an increasing fraction of sales are not immediately paid for, on average.
2. Adjustments to nonpayment by increasing allowances for doubtful accounts have varied somewhat over the years, but allowances have increased in the 2016-2018 period significantly over 2015. Statewide average allowance for doubtful accounts as a percentage of trade receivables, however, has steadily increased since 2015.

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3. The average share of trade receivables as accounts more than 90 days old was greatest in 2017, reduced significantly in 2017, then increased again in 2018.
4. Average bad debt expenses, as a share of receivable, have increased since 2015.

Cooperatives remain an important source of credit for patrons and a key way for promoting input sales. Trends in farm income may affect trade receivables. Historically, cooperative exposure to patron liquidity and solvency problems affect the solvency of the cooperative itself. Trends since 2015 suggest cooperative managers must continue to consider actions that preserve the flexibility of trade credit programs. If, for example, the average bad debt expense percentage continues to increase then management may want to continue tightening credit terms to patrons. Conversely, if the bad debt percentage is considered too low, management may elect to loosen credit in order to expand sales to somewhat more risky customers. Maintaining close sales relationships with patrons will help provide information about the health of a patron's purchasing behavior and the risk of nonpayment.