

What is Global Cash Flow and Why is it Important?

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“Traditional” Ag Credit Analysis Tools

- **Balance sheet**
- **Collateral analysis**
- **Schedule F (cash to accrual)**
- **Annual / Monthly Cash Flow Projections**



“Traditional” Ag Credit Analysis Tools

- **Business financial performance measures**
 - Liquidity
 - Solvency
 - Profitability
 - Repayment Capacity
 - Efficiency

Global Cash Flow...



A New Old Tool?

Global Cash Flow...



**Does Not Measure Business
Financial Performance**

A New / Old Tool

- **Global Cash Flow Analysis**
 - Analyze debt repayment from multiple sources
 - Mix of business and personal

Old-School Example

- **Family with farm income, custom hire income, non-farm W-2 income**
- **Use your favorite tool to project “*can they pay their bills?*”**



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What's Wrong With This Old-School Picture?

Minnesota Vikings



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“Wilfs own complex web of holdings in 37 states”

- **21-year civil trial in NJ between Wilfs and partners in 764-unit apartment complex**



Highlights and Quotes

- **Ownership stake in 460 separate entities**
- **Roughly 700 separate tax returns**

Highlights and Quotes

- **“Judge Deanne Wilson complained of how difficult it has been to unravel the Wilfs’ many interrelated companies because of a lack of records and the Wilfs’ own confusing testimony.”**

Highlights and Quotes

- **“Once again, I have no idea what the witness’ answer actually was, or what he was doing, or why he did what he did,” said the judge.**

A New / Old Tool

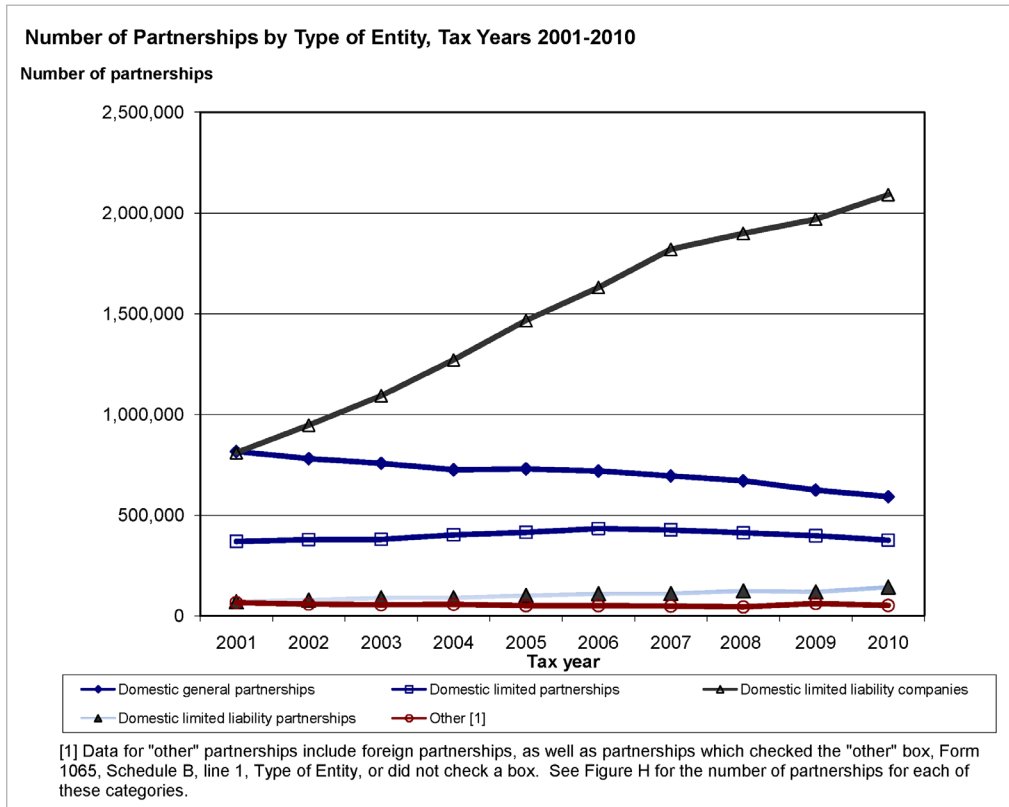
- **Global Cash Flow Analysis**
 - Analyze debt repayment from multiple sources
 - Mix of business and personal
 - ***Multiple entities***
 - ***Multiple guarantors***



This is unusual, right?

Let's ask the IRS...

Partnership Returns, 2010

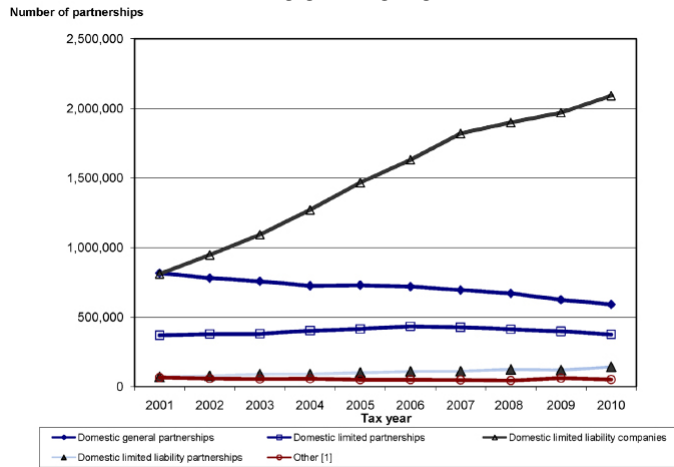


A partnership is an unincorporated organization formed by two or more entities or persons that join to carry on a trade or business. Each partner contributes money, property, labor, or skill, and each expects to share in the profits and losses. Every partnership that engages in a trade or business, or has income from sources in the United States, must file an annual information return, Form 1065, U.S. Partnership Return of Income, or Form 1065-B, U.S. Return of Income for Electing Large Partnerships, with the Internal Revenue Service. A partnership does not pay tax on its income but “passes through” any profits and losses to its partners, who must include those profits and losses on their income tax returns.

Highlights of the Data

- For 2010, the number of partnerships increased 2.5 percent, from 3,168,728 for 2009 to 3,248,481.
- The number of partners increased by 6.1 percent, from 21,141,979 for 2009 to 22,428,047 for 2010.
- Partnerships in the real estate and rental and leasing sector accounts for 47.9 percent of all partnerships and 32.9 percent of all partners, the largest share reported among all sectors.
- The finance and insurance sectors reported the largest share of total net income (loss), 48.3 percent, and total assets, 55.4 percent, for all partnerships in 2010.
- Total net income (loss), or profit, increased by 44.9 percent \$409.9 billion for 2009 to \$593.7 billion for 2010.
- In 2010, only 2 sectors (information and education) reported a decline in profits down from 13 in 2009.
- Total receipts in 2010 were \$5.5 trillion, a 14.3-percent increase from 2009.
- Business receipts, the largest component of total receipts, increased between 2009 and 2010. Business receipts increased by \$384.1 billion to \$3.9 trillion for 2010.
- Total assets of partnerships reporting balance sheet information increased 5.4 percent, from \$18.8 trillion for 2009 to \$19.8 trillion for 2010.
- Total income (loss) minus total deductions available for allocation increased significantly from \$391.3 billion for 2009 to \$976.6 billion for 2010.
- In 2010, partners classified as corporations received the largest share of income (loss) allocated to partners, \$294.2 billion.

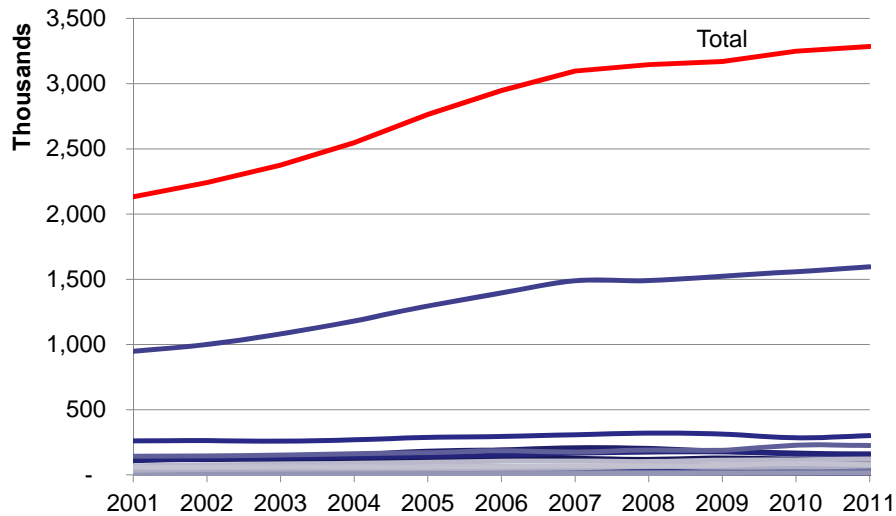
Number of Partnerships by Type of Entity, 2001-2010



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Source: www.irs.gov/uac/SOI-Tax-Stats-Partnership-Statistics

Number of Partnerships by Industry



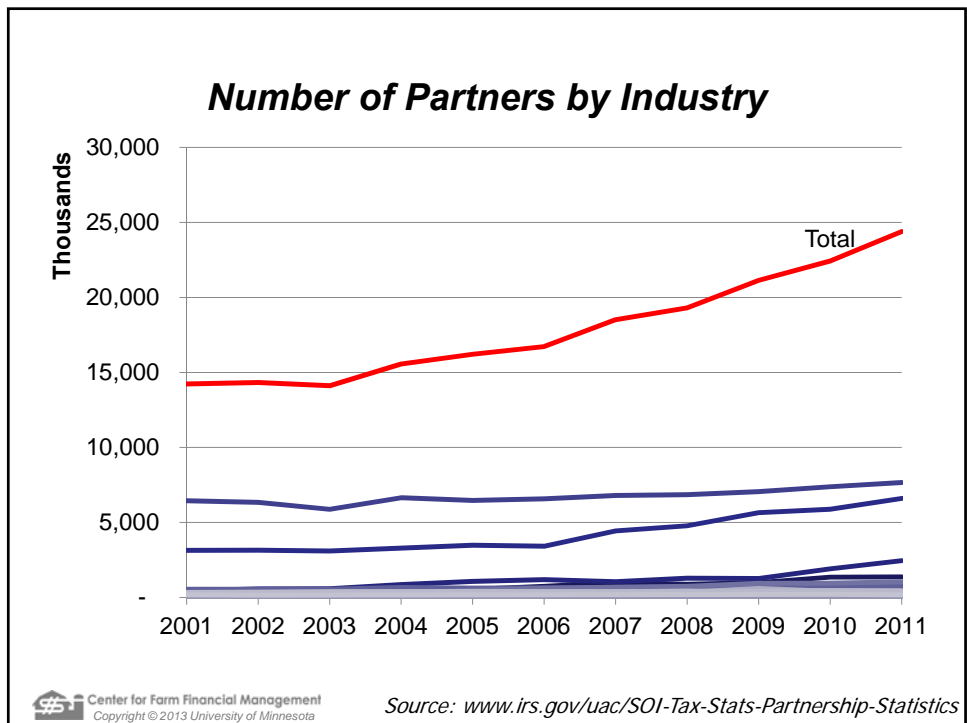
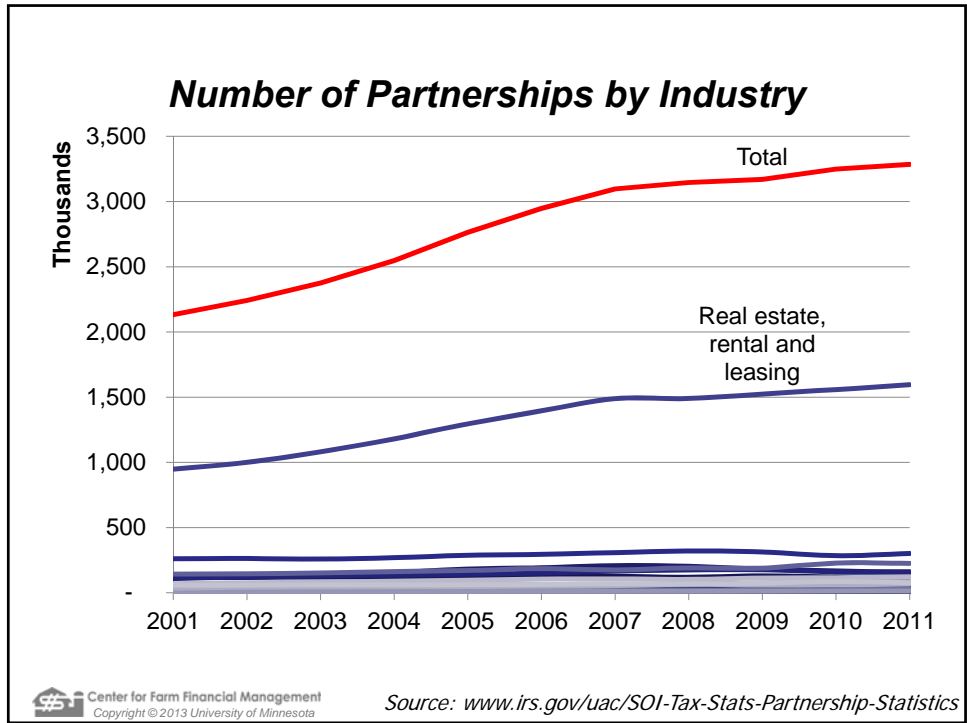
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Source: www.irs.gov/uac/SOI-Tax-Stats-Partnership-Statistics

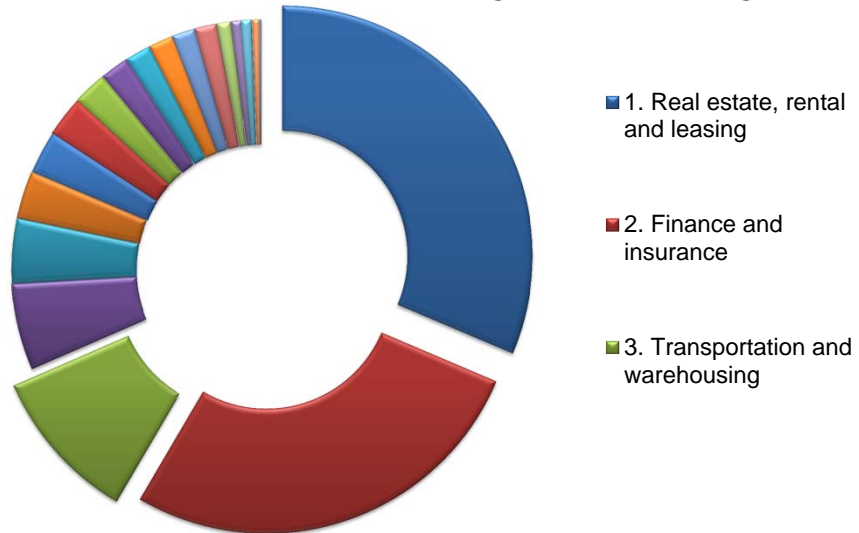
	2009	2010	2011
Total number of partnerships	3,168,728	3,248,481	3,285,177
Total number of partners	21,141,979	22,428,047	24,389,807

Number of Partnerships by Industry				RANK
Agriculture, forestry, fishing & hunting	129,889	121,401	121,192	7
Mining	31,922	41,731	34,522	16
Utilities	6,052	6,761	3,349	19
Construction	181,295	167,576	157,333	5
Manufacturing	44,698	60,192	64,418	13
Wholesale trade	54,540	59,803	73,201	10
Retail trade	176,694	160,359	161,596	4
Transportation and warehousing	50,551	51,242	40,351	15
Information	42,846	47,143	44,068	14
Finance and insurance	313,203	284,487	301,267	2
Real estate and rental and leasing	1,524,297	1,557,435	1,595,757	1
Professional, scientific and technical	189,070	227,966	225,785	3
Holding companies	17,230	25,359	28,578	17
Administrative, support, etc	74,607	81,773	71,998	11
Educational services	11,239	12,953	12,968	18
Health care and social assistance	69,566	73,226	79,803	8
Arts, entertainment and recreation	58,302	61,534	67,183	12
Accommodation and food services	113,242	115,676	122,104	6
Other services	73,772	87,103	77,346	9

Number of Partners by Industry				RANK
Agriculture, forestry, fishing & hunting	424,032	401,045	393,200	12
Mining	978,314	1,352,731	1,367,314	4
Utilities	152,179	169,072	113,472	18
Construction	521,851	446,521	404,683	11
Manufacturing	574,758	516,074	682,535	7
Wholesale trade	371,496	425,981	538,253	9
Retail trade	613,579	434,660	647,523	8
Transportation and warehousing	1,258,967	1,906,832	2,445,371	3
Information	182,752	192,452	215,393	15
Finance and insurance	5,647,231	5,872,248	6,597,560	2
Real estate and rental and leasing	7,052,342	7,381,816	7,654,683	1
Professional, scientific and technical	675,316	753,404	753,583	6
Holding companies	932,091	950,456	1,027,254	5
Administrative, support, etc	201,645	190,540	173,707	16
Educational services	26,642	30,930	33,200	19
Health care and social assistance	314,117	339,600	347,280	14
Arts, entertainment and recreation	598,375	401,445	369,166	13
Accommodation and food services	418,215	454,842	450,271	10
Other services	184,239	195,481	170,711	17



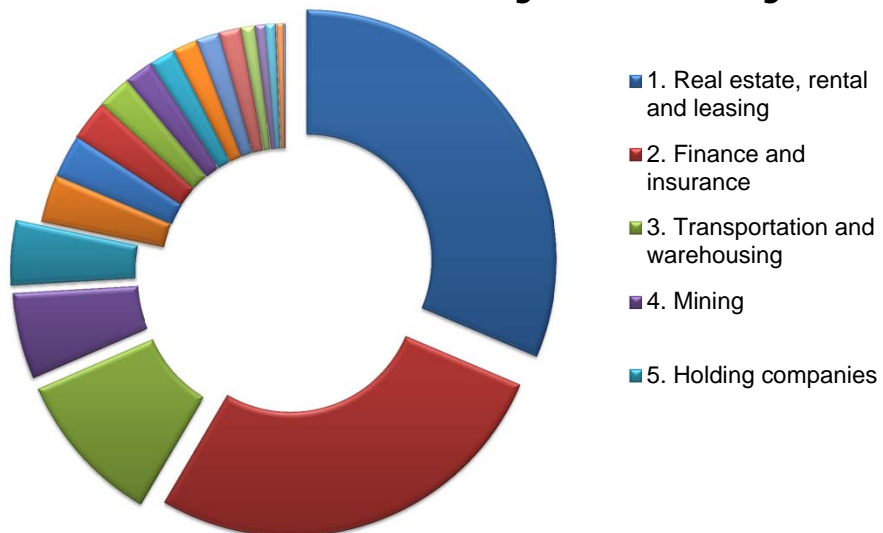
2011 Partners by Industry



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Source: www.irs.gov/uac/SOI-Tax-Stats-Partnership-Statistics

2011 Partners by Industry



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Know Thy Borrower



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***Global Cash Flow
≠
Business Financial
Performance***



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Global Cash Flow



Where Is the Cash?

Why?

- **“Because the examiner told me to...”**
- **Find the weak thread(s)**
- **How do they impact the stronger threads?**



Why?

- **Turn over all the rocks**
- **Due diligence**
- **Are you approving a loan or approving the risk?**



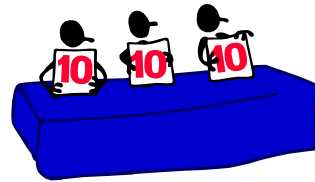
Do You Have an Approach?


- **Art vs. Science? Luck vs. Skill?**
- **Can it be explained?**
- **No auto-pilot**



“Perfect” Global Cash Flow

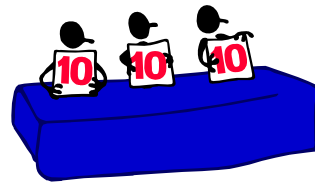
- **Considers all existing and potential sources of income**
- **Analyzes all asset holdings and balance sheet cash flow**



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“Perfect” Global Cash Flow

- **Personal income**
- **Business income, assets & inventories**
- **Real estate holdings**
- **Direct liabilities and debt service**
- **Contingent liabilities**



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Steps to Consider

- **Full tax return to identify “activities”**
 - 1040 and supporting schedules
 - K-1’s
- **Personal balance sheet**
 - Equity in other entities?
- **Does it fit the “old-school” example?**



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Challenges

- **1 + 1 ≠ 2**
 - Don’t double-count cash
 - Earnings vs. Distributions



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Challenges

- **How many entities to include in the analysis?**
 - As many as you can stand?
 - Where is the risk?

Challenges

- **Difficult to compare global cash flow between different customers**
- **Monitor changes over time**



Challenges

- **Balancing consistency in approach vs. one-size-fits-all results**



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Challenges

- **If the approach leads to more questions, you are probably on the right track**



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Questions?

Thank You!



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