

Cooperation Works! From Workers to Owners

Online Training 7/21/09

WORKER COOPERATIVE FINANCES

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INTRODUCTIONS

About Me

About You

Where We're Going Together

Accounting: It's Not the Weather

Key Terms and Concepts

Questions

FINANCIAL STATEMENTS

How I think of financials: ratios and relationships

Profit and Loss

Balance Sheet

Cash Flow Statement

Exercise: looking at sample financials

How are financial statements different for a worker cooperative?

Questions

WORKER COOPERATIVE FINANCES

Cooperative Ownership Structures

Surplus vs Profit

Patronage Distributions

Exercise: looking at a decision about patronage payouts

Implications for Financial Stability

Implications for Decision-making

Questions

FINANCES & COOPERATIVE DEVELOPMENT

Raising Capital

Training Obligations

Ongoing Financial Management

Accidental Businesspeople

Question & Answer Period



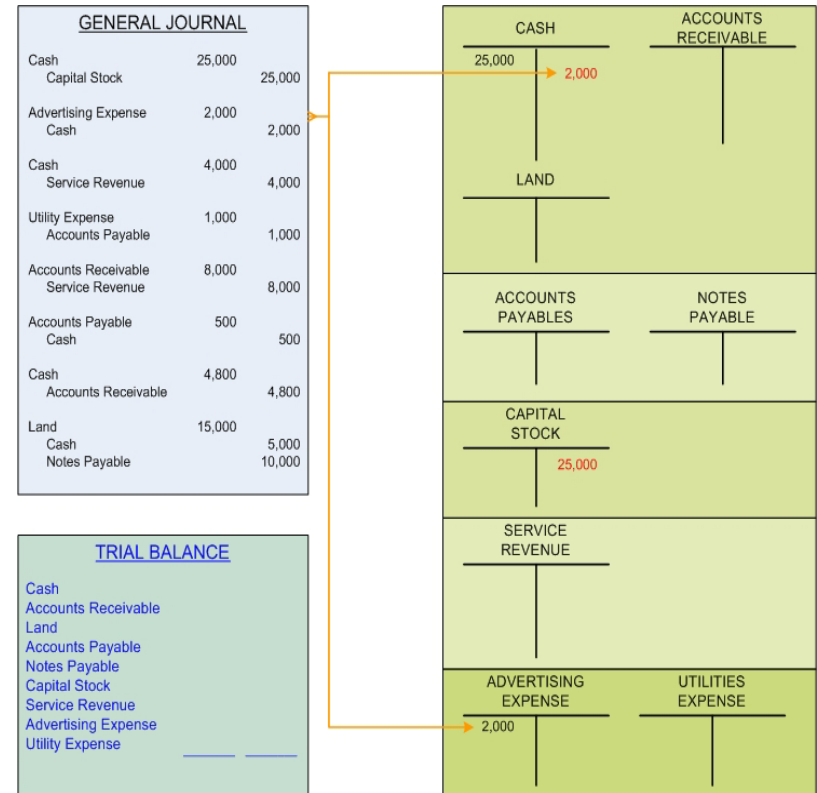
Accounting: It's not the weather

The Weather



▶ <http://www.companysj.com/v244/hurricane.html>

Accounting



▶ <http://www.principlesofaccounting.com/ART/C2art/animationA.htm>

Key Terms and Concepts

- ▶ Cash Basis vs Accrual Basis
- ▶ Financial Statements
 - ▶ Balance Sheet
 - ▶ Profit and Loss Statement
 - ▶ Cash Flow Statement
- ▶ Financial projections
- ▶ Capitalization
- ▶ Equity
 - ▶ Member Capital Accounts
 - ▶ Preferred Shares
- ▶ Profit vs. Surplus
- ▶ Patronage/Ownership Dividend/Shares
 - ▶ Cash Portion of Patronage
 - ▶ Notice of Allocation



Cash Basis vs Accrual Basis

Cash Basis

- ▶ Income recorded when the cash hits the bank
- ▶ Expenses recorded when the cash leaves the bank
- ▶ EXAMPLE: Your check register

Accrual Basis

- ▶ Income recorded when you invoice your customers (invoices hang out in A/R until they're paid)
- ▶ Expenses recorded when you enter the bill (bills hang out in A/P until they're paid)
- ▶ EXAMPLE: Your credit card statement (sort of)

★ HYBRID ★



Financial Statements: A Storytelling Tool

Information is most useful in relationship to other information. Make comparisons:

- ▶ Over time
- ▶ Within the statement
- ▶ Both at once (within the statement, over time)

The most useful comparison is to reality. Financial info is your feedback loop: always in dialogue with operations.

- ▶ Does the statement confirm or explain your experience running your business?
- ▶ What questions does it answer?
- ▶ What questions does it suggest?
- ▶ What data is missing?



Profit and Loss Statement/ Income Statement

▶ “From Jan 1- March 31”

January	February	March
April	May	June
July	August	September
October	November	December



Balance Sheet

“As of March 31”

January	February	March
April	May	June
July	August	September
October	November	December



Cash Flow Statement

- ▶ Transactions that affect cash flow but are not on P&L
 - ▶ Equity contributions
 - ▶ Principal payments
 - ▶ Equipment purchase

- ▶ Transactions on the P&L that do not affect cash flow:
 - ▶ Invoiced income → A/R
 - ▶ Vouchered expenses → A/P
 - ▶ Depreciation



Some Ratios

▶ Current Ratio

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

Could you pay your current debt tomorrow?

▶ Labor to Sales Ratio

$$\frac{\text{Total Labor}}{\text{Total Sales}}$$

How much labor do you need to produce your sales?

▶ % Change

$$\frac{(\text{This qtr} - \text{last qtr})}{\text{Last qtr}}$$

What increased and decreased over time?

▶ % of Sales

$$\frac{\text{Sales type}}{\text{Total Sales}}$$

What's your sales breakdown?



Financial Statements: The Cooperative Difference

▶ **What they say**

- ▶ Equity section:
 - ▶ Shows member capital accounts
 - ▶ Retained earnings are generally lower
- ▶ Implicit relationship between labor costs and patronage

▶ **How you use them**

- ▶ Decision-making and cooperative education tool
- ▶ Special attention to labor



Cooperative Ownership Structures

▶ Member Capital Accounts

Member equity (initial buy-in)

Retained patronage

• Patronage = Ownership Dividend

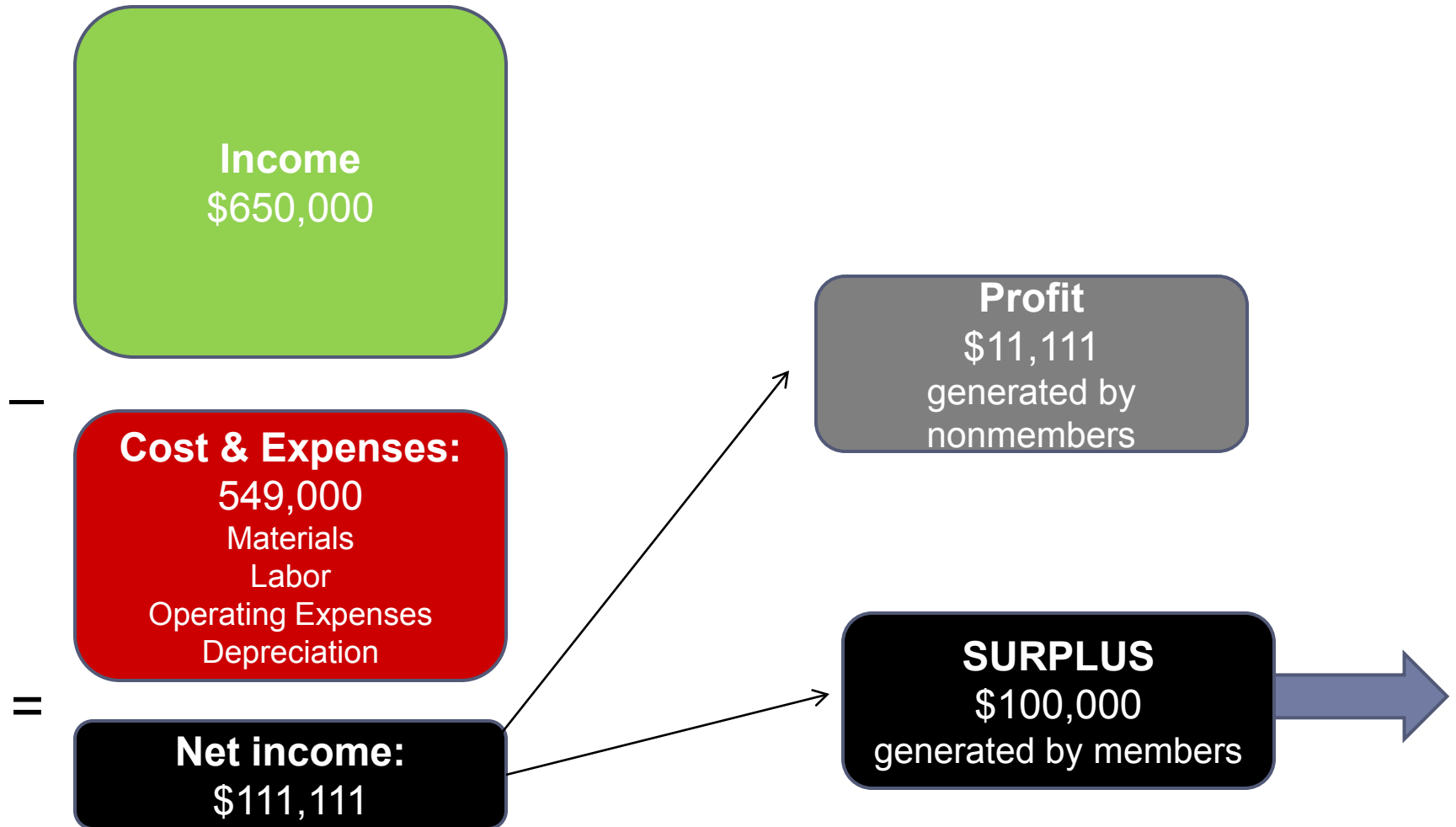
- Wage is paid throughout the year to members
(as workers)

- Annual *surplus* is distributed to members
(as owners)

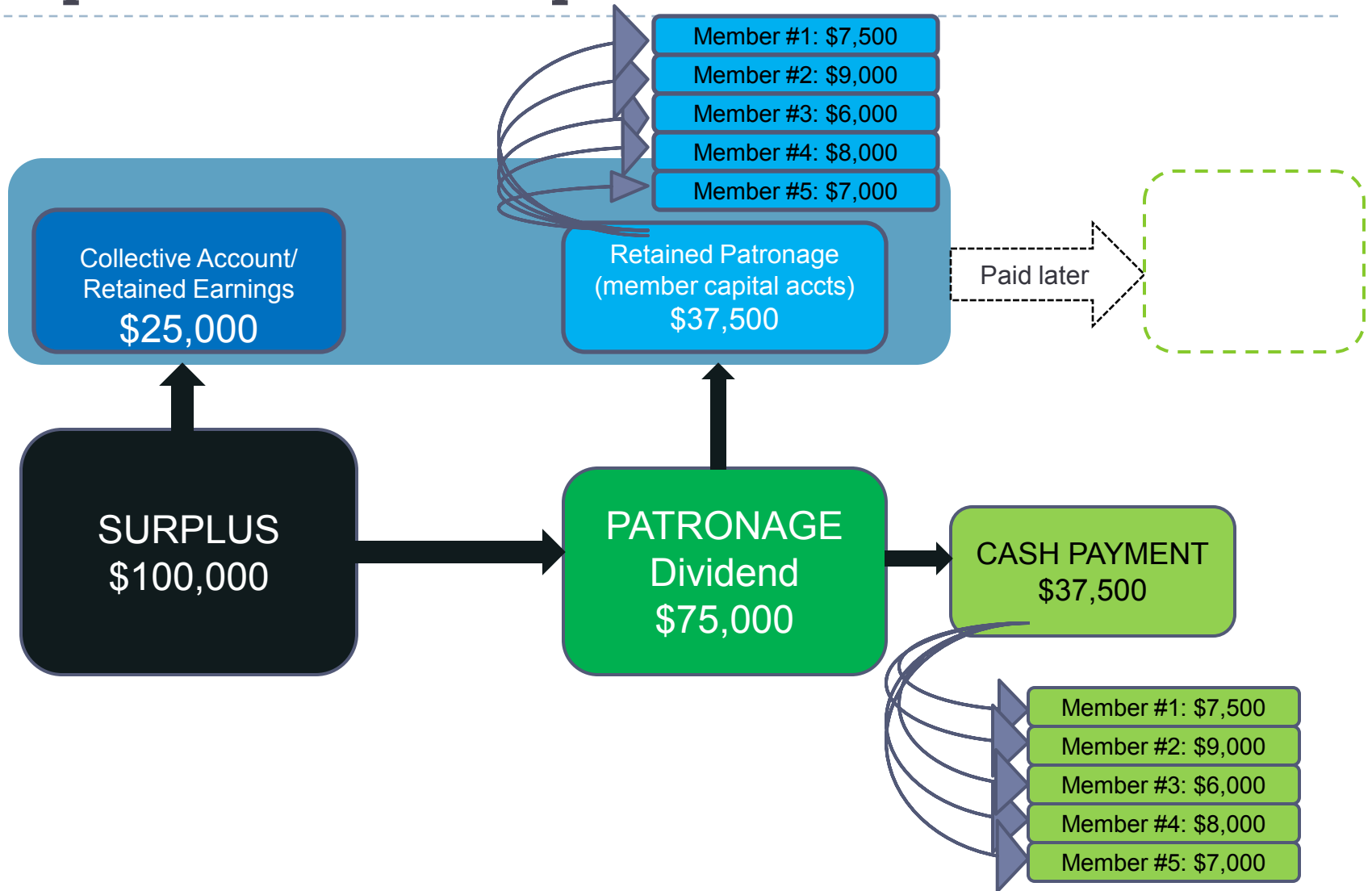
- Patronage distribution
part paid in cash
part retained in member capital accounts



Surplus



Cooperative Ownership Structures



Cooperative Cash Management and Stability

- Avoids double taxation
 - Patronage is not subject to corporate income tax (even retained patronage)
- Means of retaining cash in the cooperative, doesn't discourage longer term planning
- Member capital accounts can be savings mechanism
- Offset by: no real incentive for outside equity investment



Implications for Cooperative Decision-Making



WORKER



OWNER



MANAGER



Challenges for Cooperative Development #1

- ▶ **Raising capital requires creative thinking**
 - ▶ Banks: oh, you think so?
 - ▶ Outside investors: incentive?
 - ▶ Well who then?
 - ▶ Friends, coop community, coop loan funds, patient capital, partnerships with social mission funders and lenders
 - CFNE
 - NCDF
 - WOF
 - ShoreBank
 - One California Bank
 - RSF Social Finance, Heron Foundation, Kauffman Foundation



Challenges for Cooperative Development #2

Training is paramount

The Developer's Challenge:

Understand cooperative finances well enough to

Train other people to understand them well enough to

MAKE GOOD DECISIONS



Challenges for Cooperative Development #3

Financial Management in Management Coops

- ▶ Difficult to find experienced financial and management personnel who know enough about cooperative finances to be effective immediately
- ▶ Scope and scale, to a degree: how much information is shared, how much member involvement is sought?
- ▶ Growth?

Collective/Democratized Financial Management

- ▶ Scope and scale: who does what? Who decides what?
- ▶ Not many workers trained in or interested in finances
- ▶ Tendency to not respect the office work
- ▶ Innovation and quick response time can be a struggle



Last Thoughts: The joys and challenges of being accidental businesspeople.

Why do people form worker cooperatives?

- ▶ Passion
- ▶ Necessity
- ▶ Larger social mission

What does this mean for us?

- ▶ Reframe the question of growth
- ▶ Respect for process
- ▶ Robust and thoughtful structures
- ▶ Commitment to ongoing education

