

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



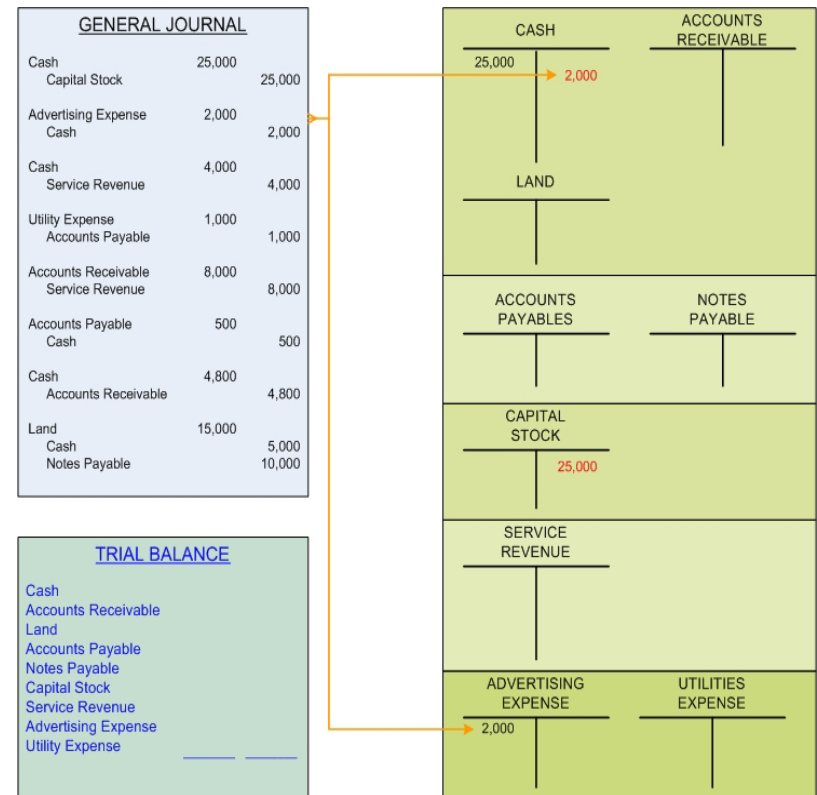
Accounting: It's not the weather

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)

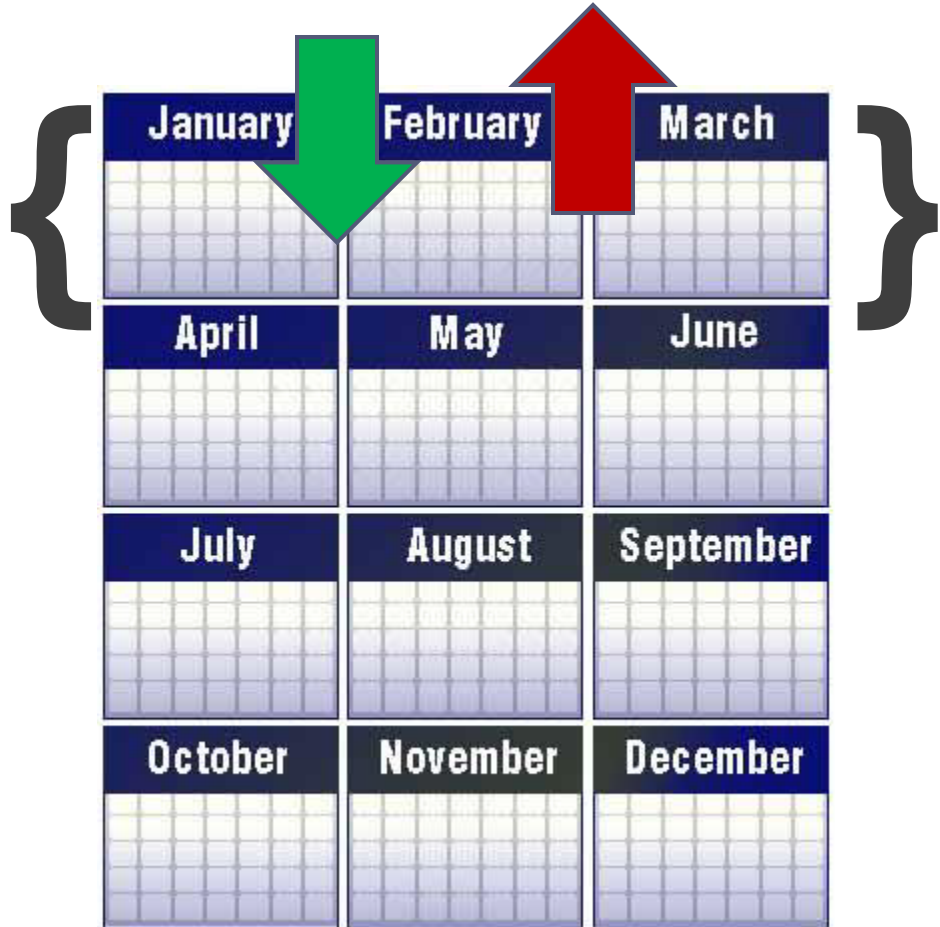
The most useful comparison is to reality. Financial info is your feedback loop: always in dialogue with operations.

- ▶ 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”



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

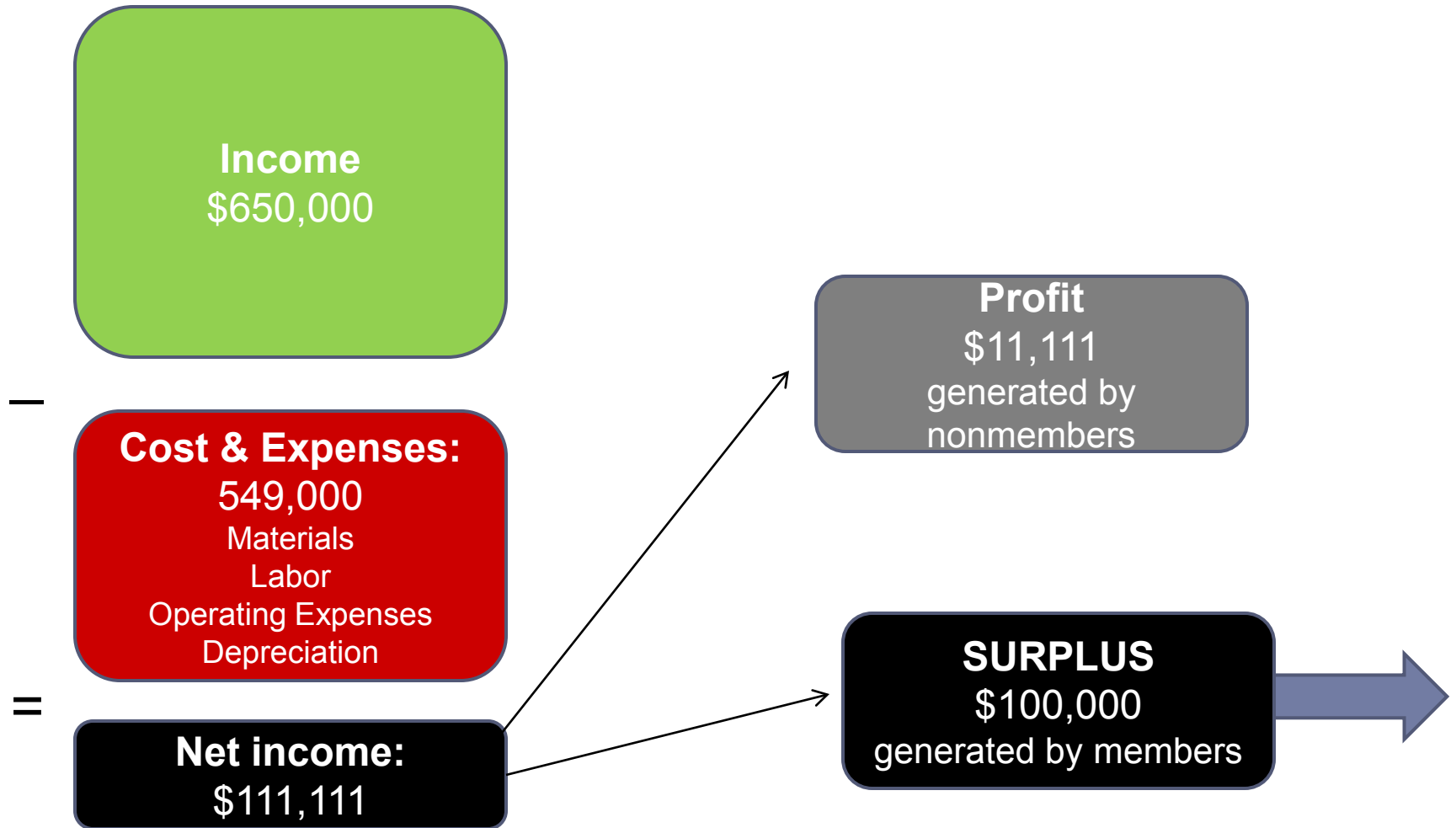
- Wage is paid throughout the year to members
(as workers)

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

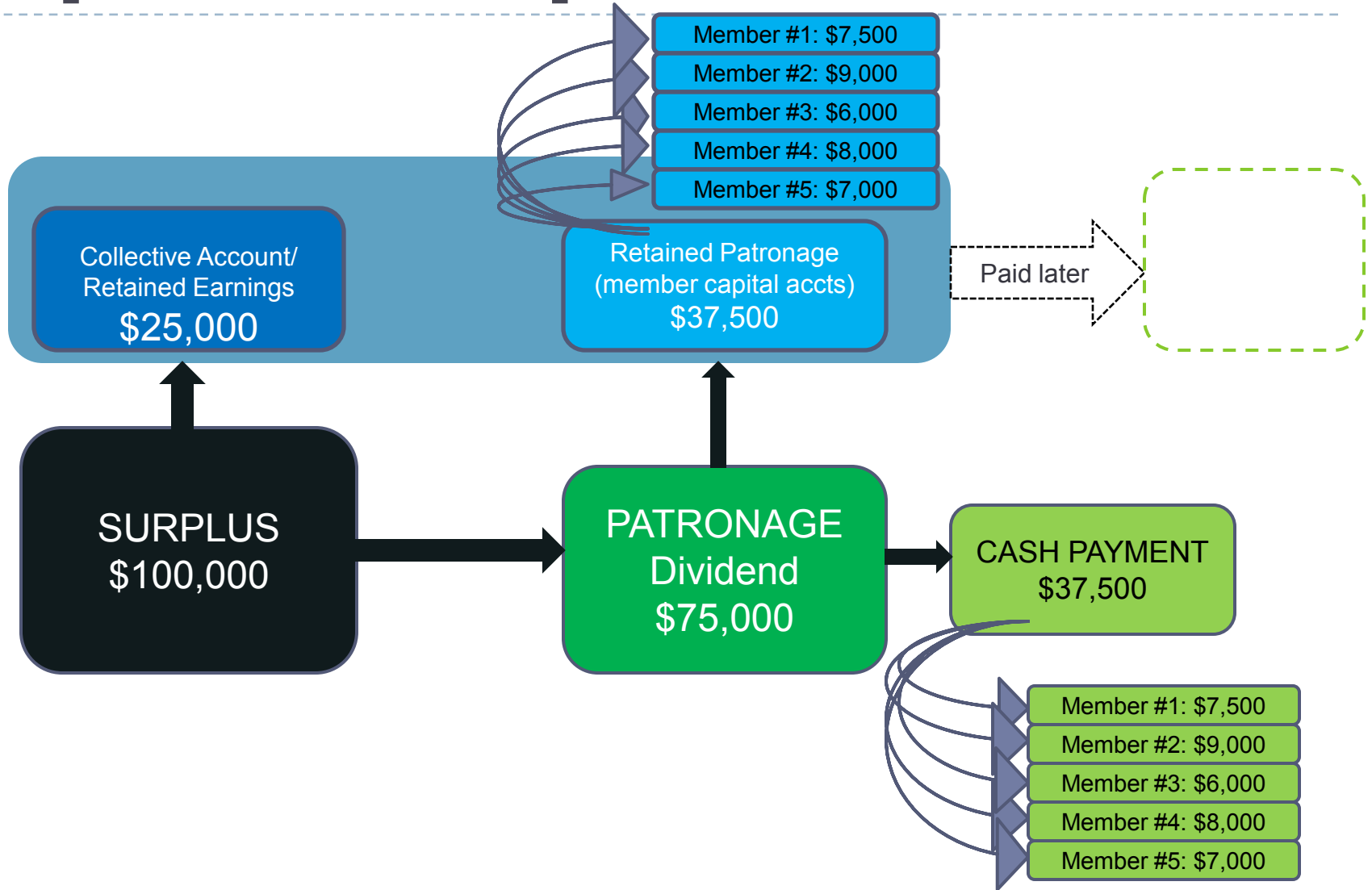
- Patronage distribution
part paid in cash
part retained in member capital accounts



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

