



Co-operation in the Changing World of Work

Financial Management of a Worker Co-op

November 1, 2018, Winnipeg

Russ Christianson, Co-op Developer



Co-operation in the Changing World of Work

Welcome and roundtable introductions:

- Your name
- Your co-op
- Location



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Your Expectations (questions 1 to 3)

Questions? (questions 4 & 5)

Your Co-op (questions 6 to 8)



Co-operation in the Changing World of Work

“You have to understand accounting and you have to understand the nuances of accounting. It's the language of business and it's an imperfect language.”
Warren Buffet

“I have to say accounting almost killed me.” Venus Williams

“Capital is considered to be an instrument subordinate to labour, which is necessary for business development.”
Mondragon Co-operative

Members' Responsibility

All worker members need to understand the financial statements and what impact their work has on the co-op enterprise's finances.

Agenda

Time	Description	
9:00 a.m.	1	Welcome and roundtable introductions: Your name, your co-op, location
9:15	2	Expectations, Questions & Your Co-op (questions 1 to 8); Review Agenda
9:50	3	Financial Terms (questions 9 to 19)
10:10	4	How to read and use financial statements; does your co-op need an audit?
10:30		<i>Refreshment Break</i>
10:45	5	Budgeting and benchmarks; variance analysis and cash flow (spreadsheet)
11:00	6	Key Performance Indicators (KPIs): Small groups (your co-op)
12:00 p.m.		<i>Lunch</i>
1:15	7	The Co-operators: Jamie Bohach and Chad Kurt
1:45	8	Distributing patronage dividends (example / best practice & your co-op)
2:05	9	Divisible and indivisible reserves (CWCF position & your co-op)
2:20		<i>Refreshment Break</i>
2:35	10	Setting and changing member buy-in amounts (examples & your co-op)
2:55	11	Sweat equity / Founders' bonuses (examples & your co-op)
3:15	12	Other Questions (questions 4 & 5) & discussion
3:45	13	Evaluation (questions 20 to 22)
4:00		<i>Adjourn</i>

Financial Basics

1. Financial Terms (questions 9 to 19)
2. How to read and use financial statements (audit?) & **scorecard**
3. Budgeting & **benchmarks**;
Variance analysis & **cash flow**
(spreadsheet)
4. Financial **KPIs** / Dashboard (groups)

Financial Reports

- Timely
- Accurate
- Regular
- It's easy to get overwhelmed by data
- Bookkeeper & Accountant
- Financial vs. Managerial Accounting
- Annual Audit

Cash Flow

- #1 reason co-ops (all businesses) fail
- Needs to be an assigned responsibility
- Cash flow forecast – monthly & weekly budget
- Managing expenses
- Inventory management (purchasing & turns)
- Gross margin and pricing
- Line of credit
- Member investment

Cash Flow


“Co-ops that are managing their cash closely must develop a budgeting process that allows them to anticipate cash shortfalls. A best practice is a weekly cash budget that should then be monitored against the actual bank balances. Doing this ensures that you know that there is enough cash available to keep the doors open.” Cooperative Grocer

Cash Flow

- There are many cash flow models/spreadsheets
- Start with the monthly income statement forecast, including seasonality
- Build the cash flow based on the income statement and your balance sheet objectives
- Past practice is okay, but think ahead for the coming weeks, months and year
- Keep the cash flow updated regularly / weekly


Co-operative Sustainability Scorecard

Economic Measures


Aron Theatre Co-operative Inc.		 creative commons.ca	
Sustainability Scorecard		12-Mar-17	
Economic Measures		Page 1	
Minimum Recommended Practices		Rank from 1 to 5	
Instructions: Please rank the "Current Level of Use" that applies to your co-op's economic practices (<i>where 1 is low and 5 is high</i>); and set the "Priority" of each practice for the overall performance of your co-op - <i>1 being the highest priority and 5 being the lowest</i> .		Current Level of Use	Priority
1	We set financial targets for key benchmarks each month, quarter and year	5	1
2	We use a participatory budgeting process each year, making sure those who are responsible for meeting financial targets are involved in setting them	5	1
3	The Board of Directors approves the annual budget, including a budgeted income statement, balance sheet and cash flow - for each monthly and the fiscal year	5	1
4	We generate accurate financial statements and benchmarks each month (on a timely basis) that compare actual results with budgeted results (variances)	5	1
5	We monitor our cash balances carefully and adjust our cash flow forecast as required to ensure our cash balances are adequate to meet financial obligations	4	1
6	We have assigned responsibility to collect accounts receivable in a timely manner, and we actively enforce our credit policy and terms (with discretion)	4	1
7	We have assigned responsibility to make timely payments to our suppliers, taking advantage of COD discounts when possible	5	1
8	We review our insurance coverage with our insurance agent when major changes are made in operations or we are exposed to increased potential liability	5	1
9	Our co-operative is adequately capitalized by our members and retained earnings	5	1
10	A professional accountant reviews/audits our annual financial statements and makes recommendations to improve our financial control systems	5	2
Total Minimum Recommended Practices Score		48	
Percentage Score		96%	

Co-operative Sustainability Scorecard

Economic Measures

Aron Theatre Co-operative Inc.			 creative commons.ca
Sustainability Scorecard		12-Mar-17	
Economic Measures		Page 2	
Financial Ratios - Ratios in <i>italics</i> may not apply to your business		Our Ratio	Benchmark
	Liquidity (Ability to pay current debts as they become due)		
1	Current Ratio - Divide total current assets by total current liabilities	4.5	2.0
2	Quick Ratio - Cash (+GICs) + Accounts Receivable (A/R)/ Current Liabilities	4.1	1.8
	Solvency (Ability to retire long-term maturing debt)		
1	Debt to Equity - Divide long-term debt by members' equity/loans	1.5	1.0
2	Total Liabilities as % of Assets - Divide total liabilities by total assets (include depreciation)	58%	40%
3	Equity as % of Assets - Divide member equity/loans by total assets	40%	60%
	Efficiency (Are financial and human resources being used efficiently)	Actual	Budget
1	Sales - actual compared to budget	\$176,118	\$169,350
2	Gross Margin as a percentage of Sales - compared to budget	57%	56%
3	Labour Expense as % of Sales - compared to budget	25%	25%
4	<i>Sales per Square Foot - applies to retail or wholesale businesses</i>		
5	Sales per Person Hour	\$3,453	\$3,321
6	Sales to Total Assets	0.5	0.5
7	<i>Inventory Turnover - applies to retail or wholesale businesses that sell products</i>	6.3	5.4
	Profitability (Ability to earn a sufficient return on invested capital)		
1	Net Income as % of Sales	5.7%	6.4%
2	Return on Equity (Member shares or loans) - after income taxes	39.2%	18.5%
3	Return on Investment - after income taxes	15.9%	5.7%

Co-operative Sustainability Scorecard

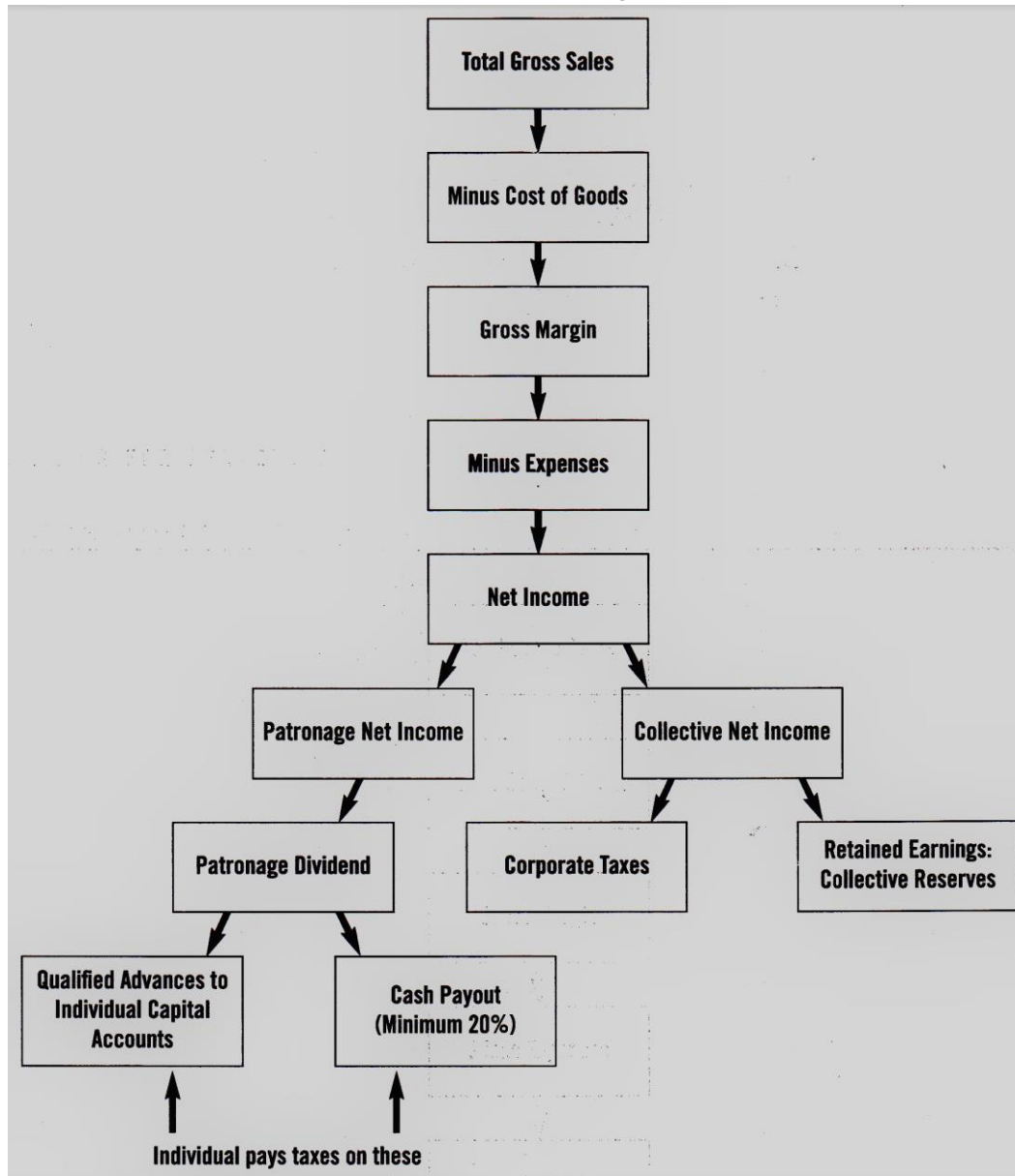
Aron Theatre Co-operative Inc.		 creative commons.ca	
Sustainability Scorecard			
Triple Bottom Line Summary			Page 1
Economic Measures		12-Mar-17	13-May-14
Total Number of Minimum Recommended Practices Identified		10	10
Total Number of Minimum Recommended Practices Used		10	10
Total Possible Score If All Practices Were Fully Used		50	50
Total Score Based on 1 to 5 Ranking of "Current Level of Use"		48	39
Percentage Economic Score		96%	78%
Main Areas for Improvement (in order of priority):			
<i>These are chosen by identifying the #1 and #2 ranked priorities that received the lowest "Use Level" rank.</i>			
2	We use a participatory budgeting process each year, making sure those who are responsible for meeting financial targets are involved in setting them		
6	We have assigned responsibility to collect accounts receivable in a timely manner, and we actively enforce our credit policy and terms (with discretion)		
9	Our co-operative is adequately capitalized by our members and retained earnings		
Social Measures		12-Mar-17	13-May-14
Total Number of Minimum Recommended Practices Identified		11	11
Total Number of Minimum Recommended Practices Used		11	11
Total Possible Score If All Practices Were Fully Used		55	55
Total Score Based on 1 to 5 Ranking of "Current Level of Use"		32	35
Percentage Social Score		58%	64%
Main Areas for Improvement (in order of priority):			
<i>These are chosen by identifying the #1 and #2 ranked priorities that received the lowest "Use Level" rank.</i>			
1	Our Board, Staff and Members have reviewed and understand the link between the International Co-op Principles and Values with Sustainability Principles		
3	Board and Staff actively participate in filling out our Sustainability Scorecard on an annual basis - performing the necessary research, having open discussions, and building consensus		
5	We budget financial and human resources each year to reach out to our membership to ensure we understand their concerns and encourage their patronage of the co-op, their participation on committees, and AGM attendance		
Ecological Measures		12-Mar-17	13-May-14
Total Number of Minimum Recommended Practices Identified		10	10
Total Number of Minimum Recommended Practices Used		10	10
Total Possible Score If All Practices Were Fully Used		50	50
Total Score Based on 1 to 5 Ranking of "Current Level of Use"		23	27
Percentage Environmental Score		46%	54%
Main Areas for Improvement (in order of priority):			
<i>These are chosen by identifying the #1 and #2 ranked priorities that received the lowest "Use Level" rank.</i>			
1	Our Board, Staff and Members have reviewed and understand how the human economy is embedded in human society, and that the "Great Economy" is the entire web of life (all the other creatures with whom humans share the world)		
2	Our co-operative sets environmental performance and efficiency goals and we measure our progress, making adjustments and improvements as necessary		
6	We educate our members, staff, suppliers and customers regarding sustainability issues, including climate change, biodiversity, and habitat destruction		
		12-Mar-17	13-May-14
Triple Bottom Line/Sustainability Score:		67%	65%

Principle 6

- U.S. natural food **co-ops have shared their financial data** for decades and now have excellent financial benchmarks
- Share your financial reports and practices with CWCF other CWCF members
- This is a major advantage over conventional businesses and sets co-ops apart in **the solidarity economy**

Patronage Dividends

from Worker Co-op Toolbox



Patronage Dividends

from Blair Hamilton

- One “profit-sharing” mechanism
- Board (and accountant) computes the allocation in the context of annual surplus and contributions to various reserves
- Method of computation is best defined beforehand
- Follows the principle of recognizing the amount of business done by the member with the co-op
- The amount of labour: as a percentage of hours, wages, or lump sum
- Deductible expense for the co-op to reduce its taxable income
- For employee-owners, patronage dividends are taxable income
- Also share losses through collective / indivisible reserve / retained earnings (loss)

Reserves

from Blair Hamilton

- **Internally restricted reserve accounts** can be used at board/member discretion, so they are viewed as equity
- **Internally restricted reserve accounts** include individual members' capital accounts and the collective reserve account (retained earnings)

- **Externally restricted reserve accounts**, depending on the restriction, are less flexible and may be seen as either a liability or as “pseudo-equity”
- The **indivisible reserve** CWCF uses to encourage movement building, is an example of an externally restricted reserve that provides equity-like working capital

Divisible Reserves

- Divided among members based on labour patronage
- CWCF members receive Preference B shares or cash (or an employee bonus)
- An annual loss is allocated to the collective reserve account

Indivisible Reserves

- Cannot be divided among members
- A set percentage (20% or 30%) of annual surpluses (losses) are allocated
- If the co-op winds down, then the **indivisible reserve** will go to a co-op organization, not individual members

Member buy-in amounts

For membership, model bylaws require:

1. an employee of the Co-operative;
 2. supports the objects of the Co-operative;
 3. engages and participates in the co-operative (e.g AGM)
 4. has worked for the Co-operative at least 2,000 hours and has worked for the Co-operative for at least 18 consecutive months, and works for the Co-operative for an average of at least 15 hrs/week;
 5. has purchased the minimum number of shares
- Example: bylaws require members to buy one \$1 member / voting share and 25, \$100 preferred Class B shares (\$2,500)

Member buy-in amounts

- Membership shares remain at \$1 par value
- Ontario: Preferred shares can remain at par value or increase in value by a maximum of 2% above the prime rate annually (cumulative dividend); or by inflation (a maximum premium of 10% compounded annually)
- Members need to determine if preferred shares remain at par, or increase in value over time

Discussion

Founders' Bonus / Sweat Equity

from Blair Hamilton

- **Sweat equity** can be a way to recognize **founder contributions**. It needs to be “**fair**”.
- Sweat equity refers to **contributed labour** or services from members.
- Sweat equity can be either formal (on balance sheet) or informal (internal “honour system”).
- Formal sweat equity will be **taxable income** for the member and subject to source deductions.
- Formal sweat equity will appear on balance sheet as a liability or, at best, “pseudo-equity”.
- **Examples** – Big Carrot, your co-ops?

Other Questions?



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Evaluation

20. On a scale from 1 to 10, (1 is low and 10 is high), please rate your level of satisfaction with our session.

21. Why did you give this rating?

22. What specifically would you do to improve this session?