

# Financial Management of *Your Worker Co-op*



**CWCF November 2, 2017**

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# CWCF Radical Roots/Routes

1. What are your expectations for this workshop?
2. What questions would you like answered?
3. Did you bring your co-op's financial statements?

# CWCF Radical Roots/Routes

“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

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

# Worker Members' Responsibility

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

# The Basics

1. How to read and use financial statements and benchmarks
2. Managing cash flow
3. Variance analysis

# Income Statement

- The income statement, balance sheet and cash flow provide a full financial picture.
- The income statement summarizes the day-to-day operation.

|                                 |           |        |
|---------------------------------|-----------|--------|
| Sales Revenue                   | 8,154,232 | 100.0% |
| Cost of Goods Sold              | 5,545,282 | 68.0%  |
| Gross Margin                    | 2,608,950 | 32.0%  |
| Expenses                        | 2,156,159 | 26.4%  |
| Net Income                      | 452,791   | 5.6%   |
| Wages and benefits              | 600,279   | 7.4%   |
| Ratio of highest to lowest paid | 2 to 1    |        |

# Balance Sheet

| ASSETS                                 | 2017             | 2016             | Change           |
|--|------------------|------------------|------------------|
| <b>CURRENT ASSETS</b>                  |                  |                  |                  |
| Cash                                   | 170,106          | 14,714           | 155,392          |
| Accounts receivable                    | 957,116          | 1,000,646        | (43,530)         |
| Inventory                              | 1,845,083        | 1,759,759        | 85,324           |
| Prepaid expenses                       | 66,210           | 67,736           | (1,526)          |
| <b>Total Current Assets</b>            | <b>3,038,515</b> | <b>2,842,855</b> | <b>195,660</b>   |
| <b>CAPITAL ASSETS</b>                  | <b>95,542</b>    | <b>108,329</b>   | <b>(12,787)</b>  |
| <b>TOTAL ASSETS</b>                    | <b>3,134,057</b> | <b>2,951,184</b> | <b>182,873</b>   |
| <b>LIABILITIES AND MEMBERS' EQUITY</b> |                  |                  |                  |
| <b>CURRENT LIABILITIES</b>             |                  |                  |                  |
| Bank indebtedness                      | 155,000          | 263,000          | (108,000)        |
| Accounts Payable                       | 687,000          | 844,523          | (157,523)        |
| Current Portion of LT Debt             | 2,421            | 2,421            |                  |
| <b>Total Current Liabilities</b>       | <b>844,421</b>   | <b>1,109,944</b> | <b>(265,523)</b> |
| <b>LONG-TERM DEBT</b>                  |                  |                  |                  |
| Term Loan                              | 119,899          | 165,000          | (45,101)         |
| <b>TOTAL LIABILITIES</b>               | <b>964,320</b>   | <b>1,274,944</b> | <b>(310,624)</b> |
| <b>MEMBERS' EQUITY</b>                 |                  |                  |                  |
| Share Capital                          | 1,347,646        | 1,343,549        | 4,097            |
| Contributed surplus                    | 15,300           | 15,300           |                  |
| Opening Retained Earnings              | 354,000          | 256,101          | 97,899           |
| Net Surplus (Deficit)                  | 452,791          | 61,290           | 391,501          |
| <b>TOTAL MEMBERS' EQUITY</b>           | <b>2,169,737</b> | <b>1,676,240</b> | <b>493,497</b>   |
| <b>TOTAL LIABILITIES &amp; EQUITY</b>  | <b>3,134,057</b> | <b>2,951,184</b> | <b>182,873</b>   |

# Financial Basics

- Controllable
- Uncontrollable (but can be influenced)
- Fixed costs
- Variable costs
- Mixed costs
- Break even analysis
- Cash flow



# 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.”

# Cash Flow

|                                 | 2018           |                                     |  |  |  |
|---------------------------------|----------------|-------------------------------------|--|--|--|
| Cash Flow Forecast              | Budget         | Notes                               |  |  |  |
| Net income                      | 557,115        | bottom line of income statement     |  |  |  |
| Add: Amortization               | 52,356         | non-cash expense, so add back       |  |  |  |
| +/- Inventory                   | (514,994)      | increase in inventory - use of cash |  |  |  |
| +/- Accounts Payable            | 316,632        | increase payables - source of cash  |  |  |  |
| +/- Accounts Receivable         | (252,993)      | increase receivables - use of cash  |  |  |  |
| Asset purchases                 | (50,000)       | increase assets - use of cash       |  |  |  |
| Loan Payments (principal)       | (64,000)       | pay down loans - use of cash        |  |  |  |
| <b>Net change in cash</b>       | <b>44,116</b>  |                                     |  |  |  |
| <b>Cash balance - beginning</b> | <b>126,983</b> |                                     |  |  |  |
| <b>Cash balance - end</b>       | <b>171,099</b> |                                     |  |  |  |
|                                 |                |                                     |  |  |  |
| <b>Source of cash</b>           | <b>black</b>   |                                     |  |  |  |
| <b>Use of cash</b>              | <b>red</b>     |                                     |  |  |  |

# Budgets & Variance Analysis

## Monthly and Annual

This is the single most important thing to do  
for financial control in your worker co-operative.

| Variance Analysis  | Actual    | Budget    | Variance |   | Actual | Budget | Variance |   |
|--------------------|-----------|-----------|----------|---|--------|--------|----------|---|
| Sales Revenue      | 8,154,232 | 8,652,071 | -497,839 | U | 100.0% | 100.0% | -5.8%    | U |
| Cost of Goods Sold | 5,545,282 | 5,849,443 | -304,161 | F | 68.0%  | 67.6%  | 0.4%     | U |
| Gross Margin       | 2,608,950 | 2,802,628 | -193,678 | U | 32.0%  | 32.4%  | -0.4%    | U |
| Expenses           | 2,156,159 | 2,400,625 | -244,466 | F | 26.4%  | 27.7%  | -1.3%    | F |
| Net Income         | 452,791   | 402,003   | 50,788   | F | 5.6%   | 4.6%   | 0.9%     | F |

***How many of you do this?***

# Co-operative Sustainability Scorecard

## Economic Measures

| Minimum Recommended Practices   |  | Rank from 1 to 5     |          |
|---|--|----------------------|----------|
| <b>Instructions:</b> 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   | 2                    | 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         | 3                    | 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 | 3                    | 1        |
| 4   | We generate accurate financial statements and benchmarks each month (on a timely basis) that compare actual results with budgeted results (variances)        | 4                    | 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)     | 2                    | 2        |
| 7   | We have assigned responsibility to make timely payments to our suppliers, taking advantage of COD discounts when possible                                    | 4                    | 2        |
| 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       | 3                    | 2        |
| 9   | Our co-operative is adequately capitalized by our members and retained earnings  | 3                    | 2        |
| 10  | A Chartered Accountant audits our annual financial statements and makes recommendations to improve our financial control systems                             | 3                    | 4        |
| <b>Total Minimum Recommended Practices Score</b>  |  | <b>31</b>            |          |
| <b>Percentage Score</b>   |  | <b>62%</b>           |          |

# Financial Ratios

| <b>Liquidity Ratios</b>                     | <b>2017</b> | <b>2016</b> | <b>Benchmark</b> |
|---|-------------|-------------|------------------|
| Current ratio (CA/CL)                       | 3.6         | 2.6         | 2.6              |
| Working capital (CA-CL)                     | \$2,194,094 | \$1,732,911 |                  |
| Working capital ratio (CA:1 WC)             | 1.6         | 1.5         | 1.5              |
| AR to WC                                    | 0.44        | 0.58        | 0.35             |
| Inventory to WC                             | 0.84        | 1.02        | 0.90             |
| Sales to WC                                 | 3.7         | 4.3         | 4.0              |
| <b>Solvency Ratios</b>                      |             |             |                  |
| CL to Total Assets                          | 26.9%       | 37.6%       | 20.0%            |
| Total Liabilities to Total Assets           | 30.8%       | 43.2%       | 25.0%            |
| Members Equity to TA                        | 69.2%       | 56.8%       | 75.0%            |
| LT Debt to Capitalization                   | 5.2%        | 9.0%        | 5.0%             |
| Sales to ME                                 | 3.8         | 4.5         | 3.0              |
| <b>Profitability Ratios</b>                 |             |             |                  |
| Net Income (after tax) to sales             | 4.7%        | 0.6%        | 5.0%             |
| Return on Investment (after tax)            | 26.2%       | 3.5%        | 15.0%            |
| <b>Efficiency Ratios</b>                    |             |             |                  |
| Inventory Turnover                          | 3.1         | 2.9         | 4.0              |
| Gross Margin to Sales                       | 32.0%       | 31.1%       | 34.0%            |
| Operating Expenses to Sales                 | 26.4%       | 30.3%       | 28.0%            |
| SB Tax Rate = 10.5% (CAN) + 4.5% (ON) = 15% |             |             |                  |

# Summary

- Educate yourself and other worker members
- Get a good bookkeeper & accountant
- Budget & variance analysis (monthly)
- Cash flow forecast – annual & weekly budget
- Manage cash flow – assign the responsibility
- Inventory management (purchasing & turns)
- Gross margin and pricing
- Member investment
- Line of credit



# CWCF Radical Roots/Routes

1. On a scale from 1 to 10, (1 is low and 10 is high), please rate your level of satisfaction with our session.
2. Why did you give this rating?
3. What specifically would you do to improve this session?