

Accounting Best Practices for Food Co-ops

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The Balance Sheet

Accounting best practices are derived from GAAP (Generally Accepted Accounting Principles), and many involve tax laws and requirements. Our review here is primarily concerned with presenting consistent, accurate information for interpretation and not with the interpretation of those amounts. A qualified accountant is an important resource in ensuring that the numbers you have on your financial statements are accurate and follow tax and legal requirements. If you are not certain what a specific financial statement entry item is, how to calculate it, or where to include it, please don't guess.

Can you tell me in 10 minutes what the best practices for finance are that I can use at my co-op?" This question has been repeatedly asked of us in our respective work with co-op finance managers and general managers. We have heard it often enough that we decided to put our heads together and work to capture best practices, starting with the balance sheet. Future installments will cover the income statement, internal controls and cash management. Upon completion of the series, we hope to have generated what is needed for a basic review of financial best practices for co-ops.

These best practices are derived from GAAP (Generally Accepted Accounting Principles), and many involve tax laws and requirements. A qualified accountant is an important resource in ensuring that the numbers you have on your balance sheet are accurate and follow tax and legal requirements. Important note: If you are not certain about a balance sheet number or how to calculate it, please don't guess.

Balance sheet review

This article covers items to include in your balance sheet, along with their definitions. Our review here is primarily concerned with presenting consistent, accurate information for interpretation and not with the actual interpretation of those balances.

Many of you likely have heard this: The balance sheet is a "snapshot" of your business at a moment in time. This means that the balance sheet represents the worth of your co-op expressed in dollars on the date listed. Assets are a compilation of all of the items of value. The dollar amount of liabilities and equity equals the assets amount and tells you which entities own what portion of the assets as of that date.

The order of items included on the balance sheet is standardized. Within each section, line items are generally listed in the order of liquidation: that is, the higher a line is in the assets, liabilities, or equity sections, the sooner it is expected to be turned into cash or, in the case of liabilities, the sooner it requires cash to settle the obligation. What follows here are the items and their definitions listed in the order in which they are usually presented.

One additional note: balance sheet items are generally presented at their fair value, with a few noted exceptions.

Assets

Assets, the first section on the balance sheet, is a list of items of value that are owned or controlled by the cooperative and that are expected to generate future benefit for the cooperative.

CURRENT ASSETS are those items that could be converted to cash within a year. In general, current assets include cash, accounts receivable, inventory, and prepaid expenses.

Cash is the keystone of the balance sheet. It includes all bank or credit union accounts and all cash on hand at your business. It must be reconciled regularly and controlled closely. (The areas associated with



controlling cash will be covered in a future article on internal controls.)

Accounts receivable (A/R) are normally small in a grocery store. It is a best practice to regularly reconcile the balances to underlying documentation, and to review each item for collectability. If collection is no longer probable, you should consider a write-off or an allowance for bad debt. This does not mean that collection efforts should stop.

Inventory is valued at cost. There are some nuances in general inventory accounting, but in a grocery store, cost is all that matters. This is an exception to the fair value rule, mostly for the sake of practicality and consistency. The initial recording of purchased inventory items is to the cost of goods or purchases accounts. It is important to adopt consistent practices and standard procedures for department managers in how vendor invoices are allocated to departments, as well as how shipping surcharges, discounts, and other price adjustments are allocated. Cost valuations of inventory must be consistent with how departments evaluate their margins. The only reliable way to know what actual margins are being achieved is to count the inventory. It is a best practice to count perishable departments' inventory every month and quarterly for all other departments. For departments that are not counted every month, an approximation of inventory should be made by using sales and realized margins of those departments.

Prepaid assets are expenses that have been paid prior to the period to which they apply. The most common is health insurance that is normally paid the month prior to the actual coverage. Examples of prepaid items are insurance, income taxes, rent, and memberships. Lease deposits and down payments on contracts may also be prepaid assets. It is a best practice to set up recurring journal entries to spread the expenses to the correct periods if the asset will be used up over time, as

contrasted with being realized due to a specific event such as moving out of a space.

FIXED ASSETS are also valued at cost. Accounting rules may eventually be changed to revalue these to fair value, but the expense and the uncertainty of doing this has delayed any change. Recording fixed assets is highly involved with a new or remodeled store, when costs must be allocated to the project and to the individual items. In a construction project, the costs of financing and carrying the project, including interest, insurance, and utilities, must be allocated to the project and capitalized. The costs to design the project and to construct or install the assets also must be capitalized. These fees include the architect, the attorney for negotiating with the construction contractor or others, and the labor to install the assets. Once the cost of fixed assets to be capitalized has been determined, their economic life, which is the amount of time over which they will be depreciated, must be assigned to them. It is expected that at the end of its economic life the asset must be replaced or that repairs will become a significant cost. It is a best practice to annually review with your accountant the fixed assets depreciation schedule to cull any assets disposed of or sold.

Intangible assets may also be recorded in certain circumstances. Financing costs, including attorney and commitment fees, should be capitalized and amortized over the life of the loan. Costs of a new store or expansion—such as training costs, advertising, and other pre-opening costs—may not be capitalized, since they are one-time costs that do not have a significant value for future years.

Investments and deposits in other cooperatives are generally recorded at cost since that is the amount at which they may be redeemed. These amounts will include initial ownership investments, retained patronage, and deposits. If the amount is unclear from the records, the co-op you are an owner of should give you a summary of what they have recorded as your investment.

It is important to analyze any **patronage dividends** received since they may represent several different things. The patronage dividend for a qualified dividend normally has cash and noncash components. The noncash component is what will be recorded as an asset. The patronage dividend for a nonqualified dividend will not have a cash component but should be recorded as an asset.

Another important point here is that the nonqualified patronage dividend will be income for book purposes but not for tax purposes. When a payment is on a prior year qualified patronage dividend, the payment will not be current income but will instead reduce the retained patronage asset. For a payment on a prior year nonqualified patronage dividend, the book treatment is to reduce the asset and not show income. But for tax purposes, the amount is income in the year received.

One last important point on patronage dividends is that they are recorded on the day you receive them, unrelated to the year the paying cooperative earned the profit or when they declared the dividend.

Liabilities and Owners' Equity

In general, liabilities tell you what is owed to outside parties. Owners' equity is the portion of liabilities that has been paid and is therefore owned and controlled by the co-op's membership. Expressed differently: Assets are a probable claim on something of value, liabilities are a probable obligation remaining on those assets, and equity is the difference between the two.

Liabilities that should be recorded are more likely to be missing from

My Food Cooperative Balance Sheet

June 30, 2012

ASSETS

CURRENT ASSETS

Cash	\$500,000
Accounts receivable	20,000
Inventory	300,000
Prepaid expenses	40,000
Total current assets	<u>860,000</u>

FIXED ASSETS

Land	200,000
Building	2,300,000
Equipment	3,000,000
Total fixed assets	<u>5,500,000</u>
Less accumulated depreciation	<u>1,500,000</u>
Net fixed assets	4,000,000

OTHER ASSETS

Intangible assets—net	10,000
Investments and deposits in other cooperatives	130,000
Total assets	<u>\$5,000,000</u>

LIABILITIES AND OWNERS' EQUITY

CURRENT LIABILITIES

Accounts payable	\$500,000
Accrued liabilities	300,000
Current portion of long-term debt	200,000
Total current liabilities	<u>1,000,000</u>

LONG-TERM LIABILITIES

Long-term debt less current portion	2,100,000
Total liabilities	<u>3,100,000</u>

OWNERS' EQUITY

Owner shares	700,000
Preferred shares	200,000
Retained patronage	400,000
Retained earnings	600,000
Total owners' equity	<u>1,900,000</u>
Total liabilities and owners' equity	<u>\$5,000,000</u>

your accounting system than unrecorded assets. Lost vendor invoices or unrecorded accruals are common examples of what should be captured in what is owed but often is missed. Whenever you close a period, you should ask yourself if there are any additional liabilities that have been incurred that have not yet been recorded. You should always investigate to make sure that you have recorded *all* payables through the date listed on your balance sheet.

CURRENT LIABILITIES are those items that are due to be paid within a year of the balance sheet date. In general, current assets include accounts payable, accrued liabilities and the current portion of debt.

Accounts payable include day-to-day expenses, where an invoice is received for goods or services. Delays in approving, processing, or pricing invoices may cause some late recording or payment issues. It is a best practice to pay only approved invoices and hold store departments to time schedules for processing.

Accrued liabilities are generally amounts that are determined by the cooperative based on applicable laws or timing of transactions. It is a best practice to record these accruals, which include paid time off (PTO), payroll, payroll taxes, sales taxes, real estate taxes, and gift certificates.

Accrued PTO should be recorded for the amount of the obligation to pay staff when they separate from service. It is a best practice that carryover be limited to a set number of hours, both to encourage people to take time off and to limit the liability.

Accrued payroll should be recorded for the portion of a payroll that falls in the period prior to when it is paid. This is generally done by taking the number of days in the prior period divided by all days in the payroll times the gross pay. Further refinement can be made but this is the most common method. Accrued payroll taxes are amounts owed from past pay periods that have not been paid. Additional liabilities arising from payroll include withholdings such as employee share of health insurance and pension plan contributions, as well as any employer pension plan matching. These accruals can generally be calculated in a pre-set fashion and should make generating them almost automatic.

Sales tax collected from shoppers should be recorded as a liability and not recorded on the income statement as part of sales. The complexity and illogic of sales tax systems is well recognized. It is a best practice to periodically review sales-taxable items since this can reduce the taxes and penalties owed when the inevitable state sales tax audit occurs. And don't forget use tax. If the cooperative uses products off the shelf or orders supplies shipped from other states, it may owe use tax. A system should be developed to capture those amounts.

Real estate and personal property taxes differ by state and sometimes by county in the timing of the tax in relation to the period covered. Sometimes payments are considered to be for the prior year and sometimes for the current year. The tax bill should outline the period covered by the tax paid. It is a best practice to accrue an estimate for taxes due at the balance sheet date.

Gift certificates are a liability until used. Abandoned property laws may apply to unused gift certificates, but most states require that they be honored indefinitely. Eventually, it may be clear that some certificates will not be used. If they are no longer a probable claim, you will need to review state law for any guidance.

Assets are a probable claim on something of value, liabilities are a probable obligation remaining on those assets, and equity is the difference between the two.

LONG-TERM LIABILITIES include lines of credit, notes, and mortgages, which are initially recorded at the amount of cash received. Accrued interest must be recorded as of the balance sheet date for the interest owed since the last time it was paid. This is easy for lines of credits and mortgages with an amortization schedule and monthly payments. Often interest for a few weeks will not be recorded since it is small and recurring. But with owner loans where interest is paid annually or less frequently, this interest accrual

is critical to presenting an accurate balance sheet. When presenting formal financial statements, it is a best practice to segregate the current portion of debt. This is the amount of principal that will be paid in the next year after the balance sheet date.

The **OWNER'S EQUITY** section is generally the most static, with less to regularly adjust than the rest of the balance sheet. **Owner shares** are typically presented first. This is the amount paid in by owners to purchase their ownership rights. The amount is normally recorded as only what has been paid and not the full owner share amount. If the full owner share amount is recorded, it should be offset by a subscription receivable amount within the equity section giving the same end result. It is a best practice to have a database of owner shares with names and investment amounts and reconcile it against the books. It is also a best practice to have a consistent policy for how withdrawing owners are treated. In order to be considered equity and not a liability, the board does, in fact, need to reserve the right not to refund owner investments. While this is true, declining to refund owner shares is uncommon and only done if the refund is a financial burden for the cooperative.

It is a best practice to read your **preferred share** agreement to determine how to record the dividends. Normally, dividends on preferred shares should only be recorded as a liability when the board has declared them as payable. Dividends on equity are not considered to be expenses for the income statement; they are recorded as a reduction of retained earnings.

Retained patronage dividends are the noncash portion of patronage dividends the cooperative has paid to owners. As with owner shares, a database of names and amounts should match the books. Refunds of retained patronage dividends are normally only done by declaration of the board that the retained amounts from a certain year are payable. At that time, the amount should be reclassified from equity to a liability account. Retained patronage dividends of withdrawing owners are generally not paid out. By not regularly paying this out, the co-op may avoid any questions about abandoned property until the board declares the amount payable.

Retained earnings are the place where the income statement interacts directly with the balance sheet. Income and losses increase and decrease retained earnings. Retained earnings should not have any other activity except dividends and prior-period entries. It is a best practice to avoid prior period entries, corrections of past-year errors. When prior period entries are recorded, they need to be highlighted since they do need to be separately stated for tax purposes and in formal financial statements.

This quick review of definitions and best practices for the balance sheet is the first of a series, in which we'll review the income statement, cash management, and internal controls for best practices.

Nurturing Your Income Statement

For many people, the income statement (also called profit and loss statement) is the only financial statement that they ever see or review. While it is an important indicator of financial performance and health, it does not tell the entire story by itself. Together and over time, the income statement, balance sheet, and cash-flow statement (all properly constructed), along with their comparative ratios, can provide you with the information you need to tell the story of your cooperative business and to make decisions that will guide it now and in the future.

In this article, we discuss income statement presentation for both internal and external users, including some tax considerations. Over the years, food co-ops have worked together to develop a common understanding of what is included in expense items and other financial statement categories in order to allow for better comparisons between co-ops. What follows here are overall considerations, items for inclusion in your income statement, definitions, and tax considerations.

Definition and considerations

The income statement summarizes the income and expenses for a specified period of time. The order and composition of items included on the income statement is not strictly standardized. However, the first line is always sales, followed by cost of goods sold, and then gross margin. What follows after that are expenses (with a subtotal of income from operations), other income and expenses, income taxes, and finally net income (otherwise referred to as “the bottom line”).

Use unique chart of accounts numbers. A very important best practice in a good accounting system is the assignment of unique chart of account numbers to each account. Accounts are generally created to allow for the most detailed level that will be needed for management reporting and decision-making. For external reporting, these accounts should be summarized. The account numbers must be assigned to meet all of the reporting needs for various users.

Note: Some basic software allows accounts to be assigned by name only—a practice that should be avoided. Using a numbered chart of accounts allows for more efficient and effective accounting practices to be put in place. Using a minimum of five digits for each account number will enable you to add summary detail accounts as needed over time.

Who is the audience? In preparing an income statement, understanding who will be using it and for what purpose will assist you in determining the level of detail to include. Operational statements for staff will most likely include much more line-item detail than what you would summarize for your board of directors or an external audience such as a bank or for your annual report. If an item is useful for managing better financial performance and controlling costs, it should be considered for inclusion in internal reports.

Monthly, quarterly, annual

How often should we produce an income statement?

Monthly: For co-op managers, income statements are normally produced monthly to ensure expense review and control. These statements include detailed line items and are often produced by department as well. Since most co-ops only conduct complete store inventories on a

MY COOPERATIVE		
STATEMENT OF INCOME		
Year ended June 30, 2012		
	Amount	Percent
SALES REVENUE		
Sales	\$19,970,000	99.85
Nonmember markup	40,000	0.20
Senior discount	(10,000)	(0.05)
Gross sales	20,000,000	100.00
Cost of goods sold	(12,500,000)	(62.50)
Gross margin	7,500,000	37.50
OPERATING EXPENSES		
Personnel	4,900,000	24.50
Occupancy	600,000	3.00
Operating expenses	600,000	3.00
Depreciation	200,000	1.00
Administrative	200,000	1.00
Board/Governance	75,000	0.38
Promotions/Marketing	250,000	1.25
Total operating expenses	6,825,000	34.13
Income from operations	675,000	3.37
OTHER INCOME (EXPENSE)		
Other income	75,000	0.38
Interest expense	(130,000)	(0.65)
Other expense	(40,000)	(0.20)
Total other income (expense)	(95,000)	(0.47)
Income before income taxes	580,000	2.90
Provision for income taxes	(50,000)	(0.25)
Net income	\$530,000	2.65

quarterly basis, it will be necessary to make an inventory adjustment for the monthly statements. (Please ask if you do not know how to make this adjustment.)

Quarterly: Income statements are generally produced for the staff and board with the agreed-upon level of detail each of them needs in order to do their respective jobs.

Annually: Income statements for outside users are normally generated on an annual basis and may be reviewed or audited by an outside accounting firm. The net income before taxes from your annual income statement is also the starting point for determining your federal and state tax obligations.

Are additional columns required? A good income statement lets you see at a glance how you performed compared to a benchmark. The

most common comparison column compares the current period to last year for the same period with an additional column showing the variance between the two. You might also compare the current period to budget or to a year-to-date income statement.

Best practice: Include variance columns as well as a column of percentages next to each expense category or line item included in the income statement that shows the percentage that item is of gross sales. Food co-op operational budgets/income statements are built, managed, and monitored using these percentages.

Presentation of the financial statements

Gross Sales: Sales are presented first. This consists of sales of your primary products, generally groceries. The sales number required by GAAP is the sales after regularly imposed markups or discounts are applied. So if you charge nonowners 5 percent more, the GAAP sales total is shelf price plus that markup. And if you give owners a 5 percent discount on every purchase, the GAAP sales total is shelf price less that discount. The most meaningful presentation often is to start with sales before discounts or markups and then subtract or add those to get to a net sales number that represents the GAAP sales.

One way to think of this is that your shelf price is not your true sales number if you charge everyone a price different from that shelf price. Your sales number is what you are regularly charging everyone. Sales should, however, not reflect the net after staff or working volunteer discounts. Those discounts are part of your personnel costs and should be classified with those expenses.

Cost of Goods Sold: Cost of goods sold (COGS) is next, just below sales. COGS includes the prices paid for goods, including any and all vendor costs or allowances such as: freight costs, volume discounts, packaging, and any other costs or allowances that vendors attach to products you are selling. An accurate cost of goods sold report requires that an accurate inventory be taken at the beginning and ending of the income statement period.

Gross Margin: The gross margin is the subtotal of sales less COGS. It is also called the gross profit. Food co-ops record sales by department (such as produce and deli), and each department has its own target gross margin. In order to compute department margins accurately, you must ensure that your chart of accounts aligns department line items in each of three areas: sales, purchases, and

Accrual or Cash Accounting (accrual, please)

A fundamental choice that your cooperative business must make is whether you will be presenting the income statement on a cash basis or accrual basis. For presentation to a board of directors, a summary for members, or for outside users such as banks, it is assumed you are using GAAP numbers. Comparability between entities and to industry standards requires using the same basis, and that is generally GAAP. Since GAAP financial statements are always accrual, it is a best practice to use accrual accounting.

Accrual accounting recognizes transactions when income is earned or when an expense is incurred regardless of when cash is actually received or a bill is paid. For example, if your fiscal quarter ends on a Thursday, you would accrue the invoices for any products received through that day (expense them in that quarter), though they haven't been paid yet. Wages and benefits for staff who worked through that day should also be expensed in that quarter, even if your payroll period doesn't end until the following Sunday.

Under **cash accounting**, the revenues from a transaction are not recognized until cash has been received, and expenses are posted only when they are paid. Cash income statements show just the effect of income received and expenses paid within the stated period, often modified to include some accrual adjustments such as depreciation and inventory.

inventory. So, if you want to calculate margins in 15 different departments, each with several subdepartments, you must have 15 account numbers with their subdepartments in each of those areas.

In addition, bookkeeping practices and operational systems must support the accurate recording of entries in each of those areas to their appropriate department. Register sales

have to be assigned to the correct department, invoices must be coded to the correct department, and inventory counts must be attributed to the correct department. Maintenance of margin systems and importantly, price-update systems, are imperative for achieving expected margins.

Expenses

Taxable Income

There are several items that are not normally shown on the income statement, but we wanted to note two. The first is patronage dividends (that you give to your owners). GAAP does not specify that patronage dividends must be a deduction from income nor that they must be a direct reduction of retained earnings. In a retail food co-op, showing patronage dividends separately from the income statement is logical as a deduction from retained earnings.

Patronage dividends are typically not all paid in cash, and the retained portion may be held indefinitely. The logic of not deducting patronage dividends may best be illustrated by example. If a co-op earns a 3 percent net income it is generally considered to be doing well. If it pays half of that in patronage dividends and deducts those in calculating net income it will show a 1.5 percent net income. If only 20 percent of that patronage dividend is paid in cash the only cash cost in the near term is 20 percent of 1.5 percent—or just 0.3 percent of sales. If an outside reader, such as a bank, sees a 1.5% net income it may make a very different judgment about lending than if it saw a 3% net income.

Since patronage dividends are a discretionary decision and often not paid fully in cash,¹⁹ it makes sense to show them as an equity transaction similar to preferred share dividends. Regardless of the income statement treatment, patronage dividends are deductible in calculating taxable net income if the IRS's rules are followed.

The second item not normally shown on the income statement, if your co-op has them, is **dividends paid on preferred shares**. These dividends are a return on invested equity and are a direct reduction of retained earnings. These preferred share dividends are also not deductible in calculating taxable income.

Below the gross margin subtotal are the expenses. These will include all of the expenses for running your store. The presentation may be highly summarized, sometimes just one line, or it may be disaggregated into as many categories as you like. We will discuss a summary presentation of some common lines. The details of accounts that constitute each summary line may be shown in an internal report but would generally not be shown to outside readers.

Personnel: The first expense category is typically personnel, in part because it is the largest expense after cost of goods sold. Personnel expenses include all costs of staff: wages, bonuses, paid time off, employment/payroll taxes, benefits, workers' compensation insurance, worker sales discounts, recruiting, and training.

A best practice: Staff benefits should be expensed as they accrue. Many co-ops have a paid time off policy (PTO) where a staff person accrues PTO according to a formula that is based on hours paid. If a full-time employee accrues one week of PTO per quarter (13 weeks), this expense should appear on your quarterly income statement as an accrued benefit. When that person takes a vacation, it will be deducted from that accrued benefits line item.

Occupancy is all of the costs of leasing or owning your space. It includes rent, insurance, real estate taxes, repairs, maintenance, and utilities, but typically not interest, which is presented separately. *Two best practices:*

Real estate taxes should be expensed monthly (one-twelfth of the estimated total), even though they are paid once or twice annually. Building depreciation can be included here, but it is a better practice to list it as a part of Depreciation (below.)

Operating expenses: These include bank fees, technology, vehicles, supplies, and small equipment (equipment that you can expense rather than depreciate).

Depreciation may be presented as part of

operating expenses or separately. For our purposes, it incorporates all depreciation, including building depreciation (if you own your building.) It is a noncash expense and is normally calculated by your accountant to ensure that you are depreciating items properly. *Best practice:* For your income statements, you should apportion this expense monthly instead of once a year.

Administrative expenses include office supplies, accounting, professional services, dues, and subscriptions.

Board or governance expenses are often presented separately and reflect that the board has its own budget. These are typically direct board costs (such as meeting expenses and board professional services), as well as linkage costs such as owner meetings or mailings.

Promotions or marketing expenses include advertising, marketing consultants, contributions, newsletters, and merchandising.

Income from operations: Expenses are normally subtotaled and then subtracted from the gross margin to show the income from operations. Staff often use this number and/or EBITDA (Earnings Before Interest, Taxes, Depreciation, Amortization) as a metric that reflects the profitability of store operations.

"Other" lines

Other income and expenses will normally be any income earned or expenses incurred that are outside of your day-to-day operations.

Patronage dividends received from other

cooperatives are typically classified under "Other income and expenses" since they are at most annual in frequency.*

Interest expense is typically shown with other expense since it is considered a cost of financing and not a direct expense related to your operations. Costs of expansions or relocations are also typically shown in other expenses to highlight the costs and to indicate that they are not a regular part of operations.

Other income generally includes interest income, gain or loss on sale of fixed assets, rent income, newsletter advertising, and fees for fieldtrips or workshops. Other income would also include any administrative charges related to member equity installments, as well as membership dues, if applicable.

Other income and expenses are normally subtotaled and subtracted from operating income to generate the net income before income taxes.

Income taxes and net income

Income taxes will include federal, state, and local income and franchise taxes. It will also include any adjustments for deferred taxes.

Net Income: the total of taxes is then subtracted from your net income before income taxes to show your net income.

Please note: your co-op can have a positive net income and still not have enough cash to survive. Watch for our next article on cash management and internal controls!

Fiscal Year End

Your co-op has a date when the fiscal year ends for book and for tax-reporting purposes. This may be either on a 52/53-week year or just at a month's end. The most common year ends for food co-ops are either June or December. Year ends are typically chosen for business reasons with the most common having the year close just after the strongest quarter. The 52/53-week year allows you to close your periods on the same day of the week instead of according to the calendar. In general, this can aid in the comparability of year-to-year and other comparisons.

Note: Changing the year end requires obtaining permission from the Internal Revenue Service, which is not difficult but follows a strict set of rules. Do this with your accountant.

* There is a valid argument that patronage dividends from other co-ops should be netted against the expenses originally incurred. The netting might typically be to COGS or to membership dues. This is in accordance with the idea that patronage dividends are a refund of an "overcharge" by the cooperative. A policy on classifying patronage from each cooperative vendor could be made based on an analysis of each relationship. These decisions are often made with your accountant.

Internal Control

The accounting best practices in this article will differ from the previous two articles since the guidelines are more dependent on your specific co-op's operations. While the specific systems for good internal controls may vary, the areas of your co-op operation that require a good internal control system are the same and are discussed here. A qualified accountant or a risk management specialist can be an important resource for you in analyzing your internal control practices and needs.

For background to the finance concepts discussed below, see the definitions sidebar, page 9.

The Basics

The basic concept of internal control from an accounting perspective is that no one person should have control over all aspects of a financial transaction. This helps to ensure that errors or misappropriations will be prevented or detected quickly. This article provides examples and explanations to highlight primary areas where an internal control system is needed and should be in place at a retail food co-op.

In general, you can prevent or detect errors and misappropriations more quickly and easily with internal controls that monitor variance from expected values. Strong internal control systems can also reduce the likelihood of someone attempting fraud and help to protect the assets—both people and cash—of your organization. If an internal control system is not well-built, anyone who uses it likely will become aware of its weak points over time and may take advantage of them.

Proper internal controls are written down and make it possible to investigate and do random verifications when questions arise. These well-documented systems can also be adjusted more easily as your organization grows and your needs change.

Front End

A longtime cashier is dismissed, the police are called, and an insurance claim is filed. Through an accidental discovery, the front-end manager found the cashier pocketing cash while reconciling the drawer at the end of a shift. The cashier was ringing up some small sales during the day and then canceling them with the “no sale” key. At the end of the day, the cashier would reconcile his drawer to the POS and pocket the extra cash. Sifting through past POS reports, it appeared that the cashier had likely taken more than \$10,000 over the course of several years.

Unfortunately, like the other examples in this article, this actually happened. This particular example has happened at other co-ops, using different targets such as bottle deposits, refunds or store coupons rather than no sales.

What could have prevented the problem or detected it sooner? In the above example and many like it, establishing what is “usual” in all areas where cash is involved can highlight more quickly any inaccuracies at the register. Developing ring-statistic expectations and then summarizing, monitoring, and following up on variations from your expectations is a best practice. Cancelled sales, refunds, bottle deposits, coupons, and discounts all create opportunities for both inaccuracies and theft at the register.



Some of the key risks in the front end can be addressed with blind count and ring-statistic monitoring. A blind count in this example would mean that someone other than the cashier would reconcile her drawer.

Internal controls can carry a cost. Establishing and implementing an appropriate internal control involves conducting an assessment and a cost-benefit analysis to ensure both that it will work to prevent errors or misappropriations and that the costs of putting it in place are not greater than the benefits. For example, if it takes each cashier 20 minutes to reconcile his or her drawer and there are 10 drawers each day, but it takes one person 90 minutes to do all 10 drawers, our cost-benefit analysis suggests

that it might be more effective operationally and a better internal control system to train and assign responsibility for reconciliation to one person. Remember: the goal is that no one person should have control over all aspects of a financial transaction, and that your internal control system satisfies your assessed needs balanced with a cost-benefit analysis.

Cash Disbursements

A general manager (GM) doesn't like gathering receipts to verify credit card charges. The finance manager (FM) reviews and initiates the payment of credit card bills, but there is no further review and approval process for the GM's credit card or reimbursements. The GM signs the credit card and reimbursement checks. The FM is not sure all of the expenses are legitimate but, without an approval process, the FM does not have the authority to insist on documentation of the business purpose or receipts that verify the purchases. The lack of a formal procedure leaves the FM in the awkward position of having to decide to keep quiet and wonder if there is fraud or to speak up and risk her/his job.

This situation could be addressed with a written procedure for documentation of all expenditures, by requiring receipts for reimbursements with verification of the receipt of the service or product, and by having a whistleblower policy to protect a staff member who brings forward a question. In addition, no one should sign a check to himself or herself. This example also illustrates that without internal control policies, someone who is acting in good faith, in this case the GM, may be suspected of wrongdoing because there is insufficient evidence required to establish and communicate legitimate business expenses.

There are numerous other disbursement controls that are recommended. The actions of any individual with access to your co-op's accounting software need to be either limited or reviewed, and an approval process is needed for all disbursements. For C.O.D. deliveries where approval prior to payment may not be possible, a regular timely review of the signed checks and invoices is needed. For other checks, the procedures should require prior approval of invoices and then review of these approved invoices when a check is signed. The person performing the bank reconciliation should not be a check signer, and ideally this person should also not have access to blank check stock or to

the accounts payable portion of the accounting software. If this is not possible, an additional person should review the bank statement and the reconciliation, looking for unusual transactions, including unauthorized electronic transfers.

An additional point to emphasize here is that the steps in an internal control system need to be documented so that there is proof they were performed. An undocumented procedure does not establish the desired trail of accountability.

Electronic cash disbursements: *One finance manager was surprised in a routine online bank account review to see a \$90,000+ check clear the bank account with an out-of-sequence number. After investigation, it turned out the check had originated overseas and was a perfect forgery, including the signature. Fortunately, the bank was able to nullify the transaction and refund the co-op's account.*

The account security that could have prevented this is called positive pay. This requires a customer to transmit information to the bank on all checks written. Any check not transmitted to the bank will not be cleared by the bank. All co-ops should discuss electronic security features with their financial institutions. Controls such as dual authorization for any electronic funds transfers or payments may also be available.

Payroll Accuracy

The employee who initiates payroll makes a deal with another staff person to increase that person's wage, and they split the difference. How easily could this be prevented or detected in your system?

Very few systems have pay rates locked, so routine detection would require a detailed comparison of payroll to the underlying personnel file. If discovered, it would look like an innocent error.

With a large payroll it may be impractical to trace every employee's pay rate to the personnel files for each payroll. But it is practical to test a random payroll in detail at least once or twice each year. This testing must be done by someone other than the people who initiate or review payroll on a regular basis. As a more general control, the person initiating a payroll should not also be the person verifying the resulting dollar amount of the payroll for reasonableness before it is recorded in the accounting software.

Labor hours: Your time clock system should require department

Internal controls help ensure that errors or misappropriations will be prevented or detected quickly.

managers to review and approve the hours for their staff. Since department managers are responsible for meeting a labor budget, they have a good reason to review their department staff labor hours as well as pay rates before paychecks are written. (Note: department managers will also want to scan hours worked for any anomalies from the posted schedule.

This review should occur weekly regardless of how often payroll is done.)

Payroll taxes: One important internal control to put in place is verification that payroll taxes are being paid. The IRS will hold board members personally liable for unpaid payroll taxes, making this an important risk to address. Many co-ops use an outside payroll provider. Legal precedent has established that if the payroll provider is not remitting the withholding amounts to the appropriate agencies, the employer is responsible for paying. For this reason, it is prudent to conduct a review of your payroll provider's controls and financial condition on at least an annual basis. It is also prudent to determine what monitoring can be done directly with the government agencies to determine that payments are timely.

Shrink Prevention

Backdoor systems: *A produce buyer set up a vendor file with a fake name and address. She passed along invoices from this vendor and received the payments at a home address. With a bank account set up in the name of this vendor she was easily able to cash the checks. Requiring verification of new vendors by someone outside of a department can prevent this.*

A system of backdoor controls can discourage vendors and staff from petty theft and detect any systematic problems. Having locked doors, cameras, designated staff for receiving, and a system for counting and logging all shipments can reduce shrink and incorrect invoicing.

All invoices should require written approval, a sign-off by the person receiving the goods and by the department manager, prior to being submitted for payment. As is true with department labor, department managers are responsible for their department gross margin, so they should approve invoices and verify that the goods were received before payments are made. A vendor leaving your store with the product that they sold you is a common form of theft.

Shoplifting: *A co-op hired a loss-prevention service but was surprised when*

Internal Control Definitions

The accounting profession uses a framework issued by a group called The Committee of Sponsoring Organizations of the Treadway Commission (COSO). The COSO definition of internal control is a process designed to offer reasonable assurance of meeting three objectives:

- Effective and efficient operations
- Reliable financial reporting
- Compliance with appropriate laws and regulations

The COSO framework then outlines five components of a system of internal control:

Control environment: Is there a culture of internal controls and systems management that supports efficient operations and safe handling of assets, appropriate decision-making and maintenance, and the ability to document what should happen or what has happened?

Risk assessment: Have you assessed the key areas in your co-op? What systems are needed to maximize security and minimize risk? What is the cost-benefit of putting those systems in place?

Control activities: Have you written down the internal control systems that you will use?

Information and communication: Are the appropriate people within your organization engaged in the process of establishing, using, and maintaining your internal control systems?

Monitoring: How do you know that your systems are working? Do you review them regularly so that you can react dynamically and make modifications as your organization changes?

the service apprehended dozens of people, including longtime members, in the first week.

Shoplifting is common, so ensure that your staff is well-trained in procedures for preventing and handling shoplifting. Great customer service is a good deterrent to shoplifting.

Practices for safe access: *On Sundays, it was hard to get someone to open the safe to get coins and singles change, so the practice was to make it look closed but leave it unlocked. That worked until one Sunday afternoon when someone slipped unnoticed into the back office and took the deposits from the previous three days.*

Maintaining strict internal controls and documentation on who can access the safe and what is kept in it is important. It is a best practice to document who has access to your safe and to have written protocols in place that require signatures to gain access. Are daily bank deposits possible? Does each person have an individual combination that can be deleted when that person leaves?

Note: Written protocols should also be in place for door keys to the store and to secure areas such as those that house your finance and database computers, servers, and POS systems. All access points, such as passwords and keys, should have a schedule for how and when they are changed that is included in your written protocols.

Financial Reporting

Most headline frauds in public companies happen when top management colludes to manipulate sales and profits. This is often done by the chief financial officer or controller with

journal entries that bypass the normal accounting department processes. Improper journal entries can also cover other frauds such as theft of receivables. Does your co-op have any controls over journal entries? Each journal entry should have a person identified as creating the entry and a person responsible for reviewing and approving it.

The controls over financial reporting should include a periodic reconciliation of each balance sheet account to the underlying documentation such as bank statements, inventory counts, and subsidiary ledgers. Passwords on the accounting software should limit staff access to the necessary areas for their job descriptions, reducing the possibility of unauthorized journal entries or other improper modifications.

A Backup System!

The accounting computer just crashed.

Is there a backup for your data? Will it work? Imagine that it didn't and the huge cost and stress that would ensue to re-create the records and keep the co-op running. Off-site data backup and regular testing must be in place. With the ability to create virtual servers and computers, it is possible to regularly test the restoration of backups. Your disaster plan should include a section on finance and record recovery.

Internal Auditing

So you've considered your risks, analyzed the costs and benefits and laid out a great internal control system. How do you monitor whether

it is working? Internal audits tell you if internal controls are functioning as intended and may also help to identify areas where modifications are needed to respond to changes in your organization.

One internal audit function noted earlier is the verification, on a test basis, of payroll records compared to personnel records. Another example is tracing a sample of checks back to invoices and testing the invoices for authorization and mathematical accuracy. Having a written description of your internal control systems allows you to do unscheduled random checks as well as annual reviews. An external audit can give you feedback on your internal controls and also perform limited testing of their operation.

Conclusion

The implementation of sufficient internal controls requires a careful analysis of your operation in all of the areas described here. Writing down your procedures and systems for internal control will allow you to review and change them as your organization grows. It will also make it easier to detect irregularities and investigate them. Your CPA firm should be able to review your internal control systems for you.

Remember, if you are unsure, seek someone with experience to discuss your co-op's particular implementation issues. Building good internal controls is critical to the smooth functioning of any co-op and the safe maintenance of your co-op's assets. It's time to start your assessment!

Cash Management

Understanding cash flow keeps the doors of your co-op open and is essential if you want to build your co-op's future. It can answer the question: "If the income statement says we are making money, why don't we have any cash?"

Note: Please don't guess! A qualified accountant or experienced co-op consultant can be an important resource for you in analyzing your cash management practices and needs.

Cash management is big

Cash management is multifaceted in that it involves every aspect of your co-op's organization and requires you to understand and develop sources of cash, know how cash is generated by your business, learn how to structure debt capital, and, in a crisis, how to generate cash in a hurry. Together your **balance sheet**, **income statement**, and **cash flow statement** are a map that you can use to understand how to be successful and make money and profit for your members.

How does your cash flow?

It is not unusual to have a circumstance where the co-op has a cash shortage at the same time as its income statement shows a positive net income. How can this be? A cash flow statement (see template, page 22) narrates the story of where cash came from and where it was spent. It summarizes all cash received or paid out by the co-op within a specified period of time.

In business, cash is generally invested to support the increase of non-cash assets such as inventory or fixed assets or to decrease liabilities such as payables or principal payments on long-term debt. Note: interest payments on your debt are expensed as "other expenses" on your income statement.)

Usually there are only two entries from your income statement that appear on a cash flow statement. They are **net income** (positive or negative) and **depreciation and amortization** (a non-cash expense). All other items are reflections of changes made to your balance sheet over the time period specified.

Always know your cash needs

Grocery operations require a significant amount of cash to operate smoothly. To avoid cash shortages, a co-op general manager (GM) needs to assess how much cash is needed at any given time. It is a best practice for GMs to know their co-op's cash needs well enough to anticipate and plan for cash shortfalls.

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.

Evaluating sources of cash

Once you know your cash needs, you can put together a long- and short-term plan for generating cash in advance of running out. If you can anticipate your needs well enough in advance, equity or debt issuance are good options. Shorter-term, useful strategies for generating cash quickly include slowing cash outflows through delaying payment of invoices and reducing inventory.



ILLUSTRATION BY WHJ

Following the opening of one expanded co-op, the GM sat down to reconcile the **sources and uses budget** with the actual project costs and calculated that when it opened they had about \$200,000 remaining in the project budget to sustain them until operations were generating enough cash to cover costs. This was more available cash than they had anticipated because their construction costs had come in under budget. Since opening, however, gross sales had leveled off to a weekly average of \$55,000 instead of the \$65,000 budgeted in the proformas. Additionally, labor expenses were higher than budgeted, and monthly inventories showed that the gross margin was too low. Though gross sales, margin, and labor had been steadily improving, the amount of cash they were spending to cover initial losses following the opening (their "burn rate") was averaging \$10,000/week. It was during week eight that the GM conducted this analysis, which indicated that the co-op had about 12 weeks to get operations to a "cash-neutral" position (burn rate of zero dollars), or they would need to get an infusion of cash. While dollars were coming in as planned through additional member loans and new member equity, clearly that wasn't going to be enough. A plan was needed to secure additional cash, as well as to improve operational performance more quickly. He calculated that they would likely need an additional \$100,000 to bridge them to a cash-neutral position.

Banking relationships

Good cash management includes establishing and maintaining a good relationship with the banking institution that holds your cash. Many co-ops have been able to obtain needed capital at critical moments based on their rapport with lenders and others.

Two important notes: One, do not underestimate the value of your business to a bank. Having the high volume of transactions, large cash balances, and the need for loans and other banking services makes your co-op attractive to a bank. Two, when evaluating a bank, make sure that you will have the ability to review bank transactions online. This

is critical for cash management and is also important in allowing for the segregation of duties for internal control over cash.

Line of credit

Having a line of credit available is a best practice and is important to be able to cover any temporary shortfalls without causing disruption to your operations. It is especially important

to have arranged this well in advance of your need since it will be difficult to negotiate one if you are in the midst of cash flow issues. These lines of credit typically have requirements to pay them off annually, so you should not plan to use them for long periods of time. In our co-op expansion story above, if a line of credit for \$100,000 had been established as a part of their expansion plan, they could have used it to

bridge their cash gap, effectively “buying” more time to steady their operations and develop other capital if needed to ensure cash flow.

Accounts payable management

When cash flow is tight, slowing payment of accounts payable and other liabilities can help immediately. Some things must be paid on time, such as taxes, especially payroll taxes, and invoices with early payment discounts or late payment penalties. Keeping communications open with vendors is critical to avoiding disruptions in delivery or sudden COD requirements.

Reviewing your accounts payable list may generate additional ideas that you can include in your cash plan strategy. Are there stakeholders in your co-op that may be willing and are positioned to assist you in your plan to bridge a cash gap? Banks, landlords, vendors, members, your community, and local government and businesses all have a vested interest in your co-op’s continued success. Having a good plan is key in being able to engage them properly.

Inventory management

One of the largest assets on your balance sheet is inventory. There are a few different ways to generate cash quickly from your inventory.

Extend your terms. If you can defer payment of vendor invoices by extending your invoice terms from, say, 10 days to 21 days, your cash should go up by the average dollar amount of 11 days’ worth of invoices. In essence, your vendor becomes a partner in financing your inventory.

Since it is such a large asset, reducing inventory can be another way of generating cash quickly. This is generally accomplished by carefully decreasing the amount of back stock that you keep on hand without causing unnecessary out of stocks. A ratio you can use over time to monitor progress is **inventory days** (aka **days of inventory**), which is the average number of days that inventory is owned by the store before it is sold. The greater the number, the longer the inventory sits in the backroom or on the shelf before it is sold.

If your back stock is already lean, you could consider intensifying your category management efforts for ways to generate cash, but this would likely take longer.

A new wellness manager was hired in one co-op, and after six months the store manager discovered that wellness department inventory had gradually increased by \$50,000. The GM was furious, but upon reflection recognized

TEMPLATE OF A CASH FLOW STATEMENT

My Food Cooperative: Statement of Cash Flows

Year ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$250,000
Adjustments to reconcile net income (loss) to net cash provided by operating activities	
Depreciation and amortization	150,000
Loss on sale of property and equipment	1,000
Deferred income taxes (Use a CPA to calculate)	15,000
(Increase) decrease in assets	
Accounts receivable (most often coupons/rebates)	(2,000)
Income tax receivable (Use a CPA to calculate)	(7,000)
Inventory	(40,000)
Prepaid expenses	(5,000)
Long-term deposits (Lease or escrow)	(2,000)
Equity in cooperatives	(2,000)
Increase in liabilities	
Accounts payable	50,000
Accrued expenses	(100,000)
Net cash provided by operating activities	308,000

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment	(700,000)
Proceeds from sales of property and equipment	2,000
Net cash used in investing activities	(698,000)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from long-term debt	500,000
Proceeds from owner equity	100,000
Patronage dividends paid	(50,000)
Owner shares refunded	(10,000)
Payments on long-term debt	(200,000)
Net cash provided by financing activities	340,000
<i>Net change in cash (Total of the three bolded “Net cash” items above)</i>	<i>(50,000)</i>
Cash—beginning of period	300,000
Cash—end of period	\$250,000

Internal Controls Best Practices

At all times, it is important to maintain and strengthen internal controls. Transparency, accountability, and checks and balances must be high priorities, especially in difficult times. One thing that we have personally observed more than once is the damage that can be done by a well-meaning bookkeeper who keeps the bad news from other staff and the GM. This can take the form of transferring funds from savings and covering up that draw down, hiding invoices and not recording them in the payables system, or preparing checks but not sending them.

Knowing your bank balances is important. You must be able to check online or call the bank and get your bank balances. If you do this on the same day each week, you will learn about the normal weekly and seasonal cycles of your cash.

Standard hiring practices should include a background check on key employees. In one case, a co-op hired a bookkeeper and later fired him for theft, only to discover that he had a police record that included stealing from prior employers.

Irregular practices and missing money can be detected by an audit. Many co-op boards of directors require that an audit be completed when there is a change in finance or general management and may require an audit every year once the co-op has reached a significant sales volume. Some governmental lending instruments and banks require an annual audit as a covenant to their loan.

that the department manager was new to management and did not have proper training, plus there were no policies in place to prevent such a mishap.

Capital structure and debt management

In general, every business needs to understand its own capital structure and how it can be managed to optimize return on investment for your members. You can evaluate it by looking at your debt-to-equity ratio, which shows the ratio between capital invested by the owners and the funds provided by lenders and other creditors, i.e., how much of your business is financed through debt and how much is financed through equity. Note: A best practice is to annually review your debt and interest terms for opportunities that optimize your debt structure to meet your cash needs.

In conversation recently, one GM was questioned by her peers about the interest rate their co-op was paying on their primary loan. Prompted to analyze it, they found that with little work and no cash they could easily refinance this source of capital, resulting in lower monthly payments and savings to the co-op of over \$10,000 in reduced interest expense over the life of the loan.

Good capital structure does not mean that your co-op has no debt. It means that you are managing the risks and benefits of available capital and optimizing member benefit. Any time the debt-to-equity ratio is less than 1:1, there will almost always be a large cash balance. Is there a way for you to invest excess working capital in your growth, your future, and/or your mission? How much can you invest without putting your current co-op business at risk? These are only some of the important questions you will want to ask yourself. Engaging with your

Ratios for Cash Management

Debt-to-equity formula: debt / equity

Definition: Shows the ratio between capital invested by the owners and the funds provided by lenders and other creditors.

Analysis: Compares how much of the business was financed through debt and how much was financed through equity. A higher debt/equity ratio generally means that a company has been aggressive in financing its growth with debt. Too much debt can put your business at risk, but too little debt may mean you are not realizing the full potential of your business and may actually hurt your overall profitability.

Current ratio formula: current assets / current liabilities

Definition: Measures short-term debt-paying ability. Current assets are the sum of assets that typically convert to cash within 12 months. Current liabilities are the sum of amounts owed by the company and due within 12 months.

Analysis: 1.0 ratio means the company has \$1.00 in current assets to cover each \$1.00 in current liabilities. Look for a current ratio above 1.0. Note: Any current ratio number over 2.0 (2:1) often indicates excess working capital.

Debt service coverage ratio: net operating income / total debt service

Definition: Measures the ability of your business to generate enough net operating income to cover debt.

Analysis: Greater than 1 is good. A ratio of, say, .90 indicates that the business is only generating enough cash to cover 90 percent of its debt. The ratio is often a covenant included by lenders.

Inventory days formula: 365 days / inventory turns

Definition: The average number of days that inventory is owned by the store before it is sold.

Analysis: The greater the number, the longer the inventory sits in the backroom or on the shelf before it is sold.

Inventory turns formula: cost of goods sold (annualized) / average inventory

Definition: Number of times that you turn over (or sell) inventory during the year. Measures inventory liquidity.

Thanks to CoopMetrics: www.coopmetrics.coop/CM_User_Support/Other_Users/Ratio_Definitions/NF_Ratios

peers and experts can assist you in detecting and answering questions that facilitate your understanding of risk so that you can protect and leverage your co-op's assets with more confidence.

Members have a role in investing in their co-op's future. Developing ways for them to invest in the co-op can build less-expensive sources of capital for the co-op. It can also contribute to co-op profitability by decreasing the amount of interest paid through higher loan rates. And it can deliver interest to co-op members instead of outside lenders. Larger net profits for the co-op can deliver larger patronage dividends to members in good years.

In years when the board of directors declares a patronage dividend, it is important to know your working capital needs before you declare what portion will be delivered to member owners in cash. An analysis of paying taxes or paying patronage dividends often shows the advantage of paying patronage dividends, especially if only a portion is paid out in cash. The maximum a co-op can retain is 80 percent. This serves to reward members who shop at the co-op, and it builds your balance sheet (member equity) while reducing your tax obligation. Designing the patronage dividend cash portion so that it can be redeemed as a store coupon can also help to keep more of the cash portion in the co-op.

Got cash? How can you leverage it well?

Many co-ops maintain very high cash balances. Cash levels should be reviewed regularly to determine that the co-op is fully leveraging this asset. Since current interest rates on short-term deposits are low, the use of sweep accounts and transfers to money market accounts or certificates of deposit will yield very little income.

Investing your excess cash in debt repayment, a co-op loan fund or local community development organization, or another co-op project may be a way for the co-op to achieve its mission. Since all co-ops benefit from a stronger co-op community, the use of excess cash to support other co-ops has multiple benefits. We caution co-ops to conduct a rigorous evaluation of the risks and benefits before making direct investments. In general, investing in areas associated with your core expertise is less risky, but we know that there are additional opportunities for investment that support your mission (e.g. farm, vendor, or community venture). All should be evaluated carefully.

Conclusion

Cash management is critical to the success of your co-op. We have discussed ways to evaluate the liquidity needs and capital structure of your co-op, as well as some of the options for managing your cash. Running a successful co-op requires expertise in so many areas that it is critical that you consult with experienced advisors when the stakes are high and knowledge of the options may not be readily available on staff or with your board.