



Cooperative Equity:

**What is it, and why is so important for  
the health of our cooperative?**

ACE Institute: Denver, CO  
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Mid America Cooperative Council



## Cooperative Equity:

- **Where does the Cooperative get the money to operate?**
- **How are Coops different than other Investor owned Businesses?**



Mid America Cooperative Council



## Cooperative Equity:

- **Can you form a Cooperative with other people's money?**
- **So whose money is it?**



## OUR CO-OP Balance Sheet December 31, 2015

	ASSETS		LIABILITIES
<b>Current Assets</b>		<b>Current Liabilities</b>	
Cash & Liquid Assets	\$ 60,000	Trade Payables	\$ 40,000
Patronage Receivable			
Accounts Receivable	_____	Interest, & Other Payables	<u>10,000</u>
<b>Total Current Assets</b>	<b>60,000</b>	<b>Total Current Liabilities</b>	<b>50,000</b>
Inventory	40,000	Notes Payable (Local Supporters)	40,000
Intermediate Assets	10,000	Leases Payable (Equipment)	10,000
Notes Receivable		Long-term Liabilities (Core LT debt)	<u>150,000</u>
Co-op Investments	5,000	<b>Total Liabilities</b>	<b>250,000</b>
<b>Property, Plant &amp; Equipment</b>			
Original Cost	400,000	<b>OUR CO-OP EQUITY</b>	
<b>Annual Dep, ( 40,000)</b>		<b>Membership Stock (Concrete Building Blocks)</b>	<b>100,000</b>
Prop, Plant & Equip – net	35,000	- 400 people at \$250/ share [29%]	
Land	200,000		
Other Assets	_____	<b>Total Equity</b>	<u><b>100,000</b></u>
<b>Total Assets</b>	<b>350,000</b>	<b>Total Liabilities &amp; Co-op Equity</b>	<b>350,000</b>

# Our Co-op Income Statement

Jan 1 to Dec. 31, 2016

## Income

Sales	1,000,000
Cost of Goods Sold	<u>650,000</u>
Net Margin	350,000
Service Revenue	<u>100,000</u>
<b>Gross Income</b>	<b>450,000</b>

## Expenses

Fixed Expense	40,000
Labor Expenses	250,000
Variable Expenses	<u>70,000</u>
<b>Total Expenses</b>	<b>360,000</b>

Gross Operating Income 90,000

Other Income 20,000

Patronage income from Co-op Investments 20,000

Other Expenses (10,000)

**Net Profit** 120,000

Retained Income (Annual Dep 40,000) 60,000

Revolve Equity

Patronage

Cash

Equity

# Our Co-op Income Statement

Jan 1 to Dec. 31, 2016

## Income

Sales	1,000,000
Cost of Goods Sold	<u>650,000</u>
Net Margin	350,000
Service Revenue	<u>100,000</u>
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## Expenses

Fixed Expense	40,000
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<b>Total Expenses</b>	<b>360,000</b>

**Gross Operating Income** 90,000

Other Income	20,000
Patronage income from Co-op Investments	20,000
Other Expenses	<u>(10,000)</u>

**Net Profit** \$ 120,000

Retained Income (Annual Dep 40,000)	<u>50,000</u>
Revolve Equity	10,000
“New Patronage”	



**New Asset Investment**

**Revolve Old Patronage**

<b>Cash</b> <b>\$ 30,000</b>	<b>Equity Credits</b> <b>\$ 30,000</b>
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## OUR CO-OP Balance Sheet December 31, 2016

ASSETS		LIABILITIES	
<b>Current Assets</b>		<b>Current Liabilities</b>	
Cash & Liquid Assets	\$ 45,000	Trade Payables	\$ 15,000
Patronage Receivable	5,000	Cash Patronage Payable	<b>30,000</b>
Accounts Receivable	<u>10,000</u>	Interest, & Other Payables	<u>10,000</u>
<b>Total Current Assets</b>	<b>60,000</b>	<b>Total Current Liabilities</b>	<b>55,000</b>
Inventory	230,000	Notes Payable	143,000
Intermediate Assets	40,000	Leases Payable	2,000
Notes Receivable	60,000	Long-term Liabilities	<u>200,000</u>
Co-op Investments	50,000	<b>Total Liabilities</b>	<b>400,000</b>
<b>Property, Plant &amp; Equipment</b>		<b>OUR CO-OP EQUITY</b>	
Original Cost	400,000	Membership Stock	<b>100,000</b>
<b>Annual Dep, ( 40,000)</b>		Equity Credit/Patronage (+ 20,000)	<b>240,000</b>
Prop, Plant & Equip – net	100,000	Undistributed Retained Earnings	<u>60,000</u>
Land	250,000	<b>Total Equity</b>	<b><u>400,000</u></b>
Other Assets	<u>10,000</u>		
<b>Total Assets</b>	<b>800,000</b>	<b>Total Liabilities &amp; Co-op Equity</b>	<b>800,000</b>





## Cooperative Principle #3:

### Members' Economic Participation

- Each member of the cooperative must have an economic investment which is the equity of their cooperative.
- Member's equity is subordinated capital, at the discretion of their directors who represent the membership.
- Member's equity has limited economic return.
- Patronage is the member's share of profits distributed on their percentage use of the cooperative.



## Five Important Factors for Cooperative Governance Success:

5. Directors are the elected representatives for all of the membership. They are also their VOICE.
  - Directors must understand each of the ‘Member’s Value Proposition.’
  - Directors must represent what is best for ‘All of the Members,’ not just themselves (as customers) or a segment they best associate.
  - Cooperatives are also a business and must serve the member’s needs be profitably. If they are not focused on being financially sound, they will no longer exist.



## Five Important Factors for Cooperative Governance Success:

4. Establish a Code of Conduct for themselves:
  - Co-op directors must hold themselves to a higher standard. They are in a position of authority.
    - Patronize the Cooperative, Pay bills, etc.
    - Keep personal challenges outside board room.
  - Recuse themselves for decisions of inappropriate.
  - Accept the will of the board, after the vote.
  - Nurture and grow the employees and members.
  - Oversee a cooperatives scarce resources for the greater good of the cooperative.
  - Align all decisions with the cooperative's values and principles.



## Five Important Factors for Cooperative Governance Success:

### 3. Duty of Obedience:

- Know the laws of the land and keep regularly informed.
- Follow the laws of the land. Which will keep yourselves and your CEO/President out of jail.
- Establish a clear Risk Management Policy that protects the cooperative from potential risk.
- Establish adequate internal controls, record keeping, and reporting systems to be aware of potential risky/fraudulent situations.
- Ask Questions until you understand the answer.



## Five Important Factors for Cooperative Governance Success:

### 2. Duty of Care:

- Many say the BOD's most important function is to hire a competent manager and provide adequate oversight.
- A directors diligence is their right to be informed. They hire professionals so they have adequate knowledge. [Auditors, Attorney's, & others]
- With this new knowledge comes a great responsibility to know what can be shared outside the board room. Unless it is published for all the membership, a discussion in the board room is totally confidential.



## Five Important Factors for Cooperative Governance Success:

### 1. Duty of Loyalty:

- A Cooperative board must “Speak with One Voice.”
- Preserving TRUST with your fellow directors is most critical.
- Even if you did not vote for the decision of the board, as a director, you must always support the decision of the board, or resign from that board.
- Certainly support and patronize the cooperative where possible.



Mid America Cooperative Council



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# Cooperative Ownership

