

# Cash Is King: Reviewing Cash-Flow Statements

By Martha Whitman

To read your co-op's financial statements is to decipher different aspects of its financial health. The income statement, with its comparisons to budget, last year's numbers, and line items as a percentage of sales, tells us if the co-op is growing or shrinking, if the co-op is profitable or not, and if expenses are hitting industry standards. It provides data for the entire period covered, whether that's a month, quarter, or year.

The balance sheet is a snapshot of the co-op on a specific day (last day of the month, quarter, or year) and lists the dollar value of everything the co-op has—assets such as cash, inventory, and real property—along with a breakdown of how those assets were financed, whether by a bank, vendors (liabilities), or members (equity).

As the name suggests, the cash-flow statement focuses on cash and whether the co-op has enough money to pay bills and keep the doors open. The income statement shows noncash expenses such as depreciation and estimates of taxes due. Additionally, the income statement shows the equal allocation of some expenses through the year, even if one big check is written for the whole expense. The balance sheet reflects the cost value of assets but not necessarily the cash you would receive if you sold the assets. That is, the market value of your building or inventory

might be quite different from the book value, and you won't know that until a transaction actually takes place. But the cash-flow statement is all about hard, cold cash. The dollars on the statement show the exact amount of cash coming into and going out of the co-op.

Here's the thing: It's possible to be profitable on paper but still fail due to a shortage of cash. It's also possible to be unprofitable yet to manage to pay the bills (at least for a while). The cash-flow statement explains how either situation can happen. Even if you aren't dealing with a financial crisis, you can still learn a lot about your co-op by understanding this statement. If the cash from operations is consistently greater than net income, then earnings are considered solid. But if cash from operations is consistently less than net income, you will want to know why net income is not turning into cash.

At this point it might be helpful to pull out one of your co-op's cash-flow statements and to follow along with our example. First, notice how the statement is organized. Generally, cash-flow statements are broken into three segments: cash from operations, cash from investments, and cash from financing. Notice how this information is presented. Cash from

operations begins with the net income of the reporting period (in this example \$4,164) and then adjusts for noncash expenses such as depreciation (\$4,725). Further adjustments are made based on increases and decreases in various balance sheet accounts, such as inventory (\$2,551), prepaid expenses (-\$9,451), and accounts payable (\$824). The resulting sum is the net cash provided by operations (\$1,764).

The next section shows adjustments from investments, such as purchases of equipment (-\$174), buildings, or property improvements. The final section, cash adjustments from financing, includes such things as principal payments of long-term debt (-\$2,286) or funds received from a new loan. Again, activities that increase cash are listed as positive. Those that decrease cash are listed as negative.



This article is excerpted from Issue #27 of the [LEADer](#) (Leadership Education and Development newsletter), published in spring 2015. The topic of this issue was a more advanced look at co-op finances with other articles about the need for member financial support, the capital budget, and comparing financial performance to peer co-ops. This issue also included an overview of NCG's risk management system. The study guide provides sample financial data from two co-ops with "quartile" comparisons and an opportunity for the board to review and analyze that data. Find the [full issue here](#).

The sum of these three segments results in a net increase or decrease of cash for the period. This amount is added to the total cash at the beginning of the reporting period (\$107,825), resulting in the co-op's total cash at the end of the reporting period (\$107,078). Your co-op's statement probably includes two more columns, "year to date" and "last year to date." For simplicity's sake, these column were excluded from this example.

With time, the cash-flow statement becomes easier to understand, and remember that you can focus on the trends rather than the details. Is the cash level consistently going up or down? Why? Have your general manager report the days-cash-on-hand ratio. It tells you how many days the co-op would be able to pay its bills if disaster were to strike and the co-op were to close. How does this ratio stack up against industry standards or your comfort level? Do you have too much cash? How well is your co-op leveraging its cash and member equity? All these questions make for great discussions and lead to a better understanding of what's possible for your co-op. Being able to review and analyze the co-op's financial statements is a duty of each board member. With practice, you might find the process interesting and empowering.

## Sample Cash-Flow Statement

Statement of Cash Flows for Month Ending January 31, 2015		
<b>Cash Flows from Operating Activities</b>		
Net income		\$4,164
Adjustments to net income	Depreciation	\$4,725
(Increase) decrease in assets		
	Receivables	-\$6,331
	Inventory	\$2,551
	Prepaid expenses	-\$9,451
Increase (decrease) in liabilities		
	Accounts payable	\$824
	Accrued payroll payable	\$5,570
	Payroll tax payable	-\$340
	Gift certificates	\$52
Total adjustments to net income		-\$2,400
Net cash provided by operations		\$1,764
<b>Cash Flows from Investing Activities</b>		
Purchases of equipment and improvements		-\$174
Investment in vendor co-ops		-\$50
<b>Cash Flows from Financing Activities</b>		
Principal payment, long-term debt		-\$2,286
Net increase (decrease) in cash		-\$746
Cash at beginning of month		\$107,825
Cash at end of month		\$107,079

