

## That's the Way the Money Goes

*Phil Kenkel*

*Bill Fitzwater Cooperative Chair*

*“A penny for a spool of thread, a penny for a needle, that’s the way the money goes- Pop goes the weasel.”* That nursery rhyme made me wonder how cooperatives direct their cash flows. Last week I proposed a variation of the 80-20 rule. I projected the financial performance of 10 case study cooperatives forward, using their actual equity profiles. I then looked at the present value of the member payments. We all know that when a member receives half cash and half revolving equity, the cash portion is more valued. I simply tried to quantify that using actual revolving schedules and came out with an 80-20 balance of current value. Since most of us don’t think in terms of present value of future cash flows it is also interesting to examine a different question: How do cooperatives spend their cash flows.

To get at those issues I looked at the actual cash patronage, equity redemption and property, plant and equipment expenditures of the case study cooperatives. Of course, with historic data one always wonders whether the last 5 years were really representative. In any case, the data showed that member payments were 52% cash patronage and 48% equity redemption. That was more actual cash going to revolving equity than I expected. It appeared that most cooperatives attempt to maintain their equity redemption schedule even in bad years when profits and cash patronage fall. Estate settlements also make actual equity redemption payments greater than one would project from age of patron or age of stock records. So for the past 5 years the case study cooperatives spent about the same amount on cash patronage as they did to revolve equity.

The actual results are more interesting when we throw in the reinvestment to meet member needs. Looking at that expanded concept of expenditures, the cooperatives spent 26% of cash flow on cash patronage 23% on revolving equity and 51% on infrastructure investment. Boards and CEOs clearly place a lot of emphasis on reinvesting in property, plant and equipment. I wonder whether members understand that component when they compare cash patronage between neighboring cooperatives. In nursery rhyme form my results are: ***A penny to build a bin, half a penny now and later, that’s the way the cooperative spends, and that’s what make them greater!***