



Finance Committee Meeting Minutes - February 8, 2018

Ten Pin Building Mezzanine

Present at meeting

Finance Committee: James Kloor (Treasurer), Cheri Strong (Director), Mary Ella Anderson (Director), Colin Fiske (President), Robert Donovan (Vice President), Leah Stamper (Secretary), Ed Smith (Director), Chris Copple (Member), Laura Jones (Member), Diane Sharples (Member)

Absent: None

Staff: Melanie Bettenhausen, Emily Walter, Brandy Cogburn

Members: None

1. Welcome

Meeting started at 6:06pm by James Kloor.

- Additions to the agenda
 - o Review Wegner CPA letter following approval of minutes
 - o Remodel update following dividend approval

2. Approval of minutes

<p>Motion: Approve finance committee minutes from November 2017. Motion by Diane/2nd from Cheri, motion passes (10/0/0).</p>
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3. Wegner CPA Letter

The group reviewed the engagement letter from Wegner CPAs.

- Diane – what was the original cost of the FY16 audit?
ACTION: Melanie will review the costs of the previous audit.
- Robert – asked about a timeline with Wegner
- Brandy – I filled out a timeline. They said they would have an audit for us to present at the August 29 finance committee meeting.
- Melanie – a separate letter from Wegner to the board is expected shortly.

4. Budget Process – Reported by James

The budget is not ready for review yet, so we are instead reviewing the process of the budget.

- Melanie – typically, managers and department heads look at projects for the coming year. This includes looking at margin goals. Budgets are developed on assumptions and then go to the management team. Because of the remodel, we are working off the proforma that we have, which hasn't been updated since November (it assumes we had a Jan. 1 start date). Each manager presents a budget with a narrative. All managers have proposed their budgets at the management team level. Now all the department pieces need to be consolidated and brought to the board. Additionally, the marketing department is working on a Business and Marketing Plan. I would like to discuss expectations of the budget for FY20 at a future finance committee meeting. What are our targets and what are we trying to accomplish? I would like budgeting to be more strategic.

- Mary Ella – how is the budget related to the strategic planning process?
 - o Melanie – we are just starting to work on developing the Strategic Plan for FY20-24. We would like to have an annual operational budget business plan in relation to what our strategic plan goals are. We are currently missing long-term performance goals.
 - o Colin – hopeful the new Strategic Plan will function as guidance of budget development.
 - o Chris – agrees with Mary Ella that the budget should be tied to the Strategic Plan
- James – we are planning a mid-year budget review at the August 29 finance committee meeting. That way, we can see where we are compared to budget and make adjustments as we see fit.
- Melanie - the current culture is that nobody seems to be held to a budget. Brandy is writing Standard Operating Procedures (SOPs) for purchasing and is writing quarterly reports for managers based on budgets. The management team is working to reduce expenses because we know we aren't hitting our revenue targets. Management is aware of reducing expenses but that needs to spread wider to departments... etc. There is more improvement needed.

5. State of the accounting department – Reported by James

Notes that we are getting our December financials six weeks sooner than last year. This is progress.

I discovered that there was a fundamental lack of understanding of the capabilities of the accounting software and how to manage it properly. For example, everyone could make journal entries which is something that only the Controller should have the ability to do. Mechanisms within the system have now been changed so that only Brandy has access to doing journal entries. Staff can do the bank reconciliations, but only Brandy can post them after she has reviewed them.

A Controller's biggest job is to review everything going into the ledger. This hasn't been happening because the accounting department has been short staffed. We were in a place where the accounting staff were mis-entering data. Brandy is now able to review what staff is doing and then inform staff when they are entering items incorrectly and explaining why. We are doing things the right way now.

- Mary Ella – is there a way to document what we are doing?
- Melanie – we are. They are making standard operating procedures for all the accounting jobs. Brandy is in contact with the Sage representative and auditors before making changes, to make sure changes won't disrupt any systems. There is a lot of clean-up being done. The previous controller was using spreadsheets instead of Safe. Getting everything into Safe from the spreadsheets has been a large task, as well as understanding the thought process behind why things were being done a certain way. It's going to be difficult to make comparisons with previous quarters/years.
- Melanie – glad to have James as the Treasurer. He is giving good feedback. We are in the process of looking at different software packages. We are looking to upgrade Safe right now and are looking into other accounting software. We are also looking for new HR software that would talk with our accounting software.
- Chris – doesn't understand how we handle the inventory at this building and how it relates to inventories at the stores?
 - o Melanie – we couldn't understand it either. We recently discovered the problem and that it was being posted in the wrong place.
 - o Brandy – we added a revenue and cost of goods sold line for the warehouse. Now when the product leaves here it is traced to the stores.
- Chris – interested in comparing turnover of the warehouse.
 - o Melanie – we track in a spreadsheet what items are in the warehouse and what the margin gain is for warehouse items. It is reported monthly by merchandising staff. We would like to improve tracking of warehouse inventory.

6. FY18 third quarter financials

- Diane – I appreciate the narrative that went with the financials.
- Diane – why is RWC a negative?
 - o Brandy – we did an AP check run and then held the checks and the period changed and then we did a transfer.
- Diane – There is no change in Arcata’s inventory (#1530 numbers added up are the same for September and December. How do you calculate the margins?
 - o Melanie – you can’t trust the margins. This had to do with how things are being recorded. In terms of margins per department there is not a good system. We will be changing our reporting to be more in-line with National Co+op Grocers (NCG) standards without complicating things.
 - o Diane – we don’t know if the bottom line is correct if we don’t have correct margins.
- Diane – there is no comparison the detailed balance sheet. The previous detailed balance had comparison.
 - o James – this is an oversight on my part. We’ll be sure to include comparisons in the future.
- Diane – AR charge accounts #1339 is negative.
 - o Brandy – this is part of the reconciliation process we are going through. We are reconciling every GL.
- Diane – have we purchased almost ½ million in equipment FY to date?
 - o Melanie – there have been significant purchases including a condenser unit, upright freezer, ice machine, and deli oven.
- Chris – will we have legitimate finance numbers a quarter from now?
 - o Melanie – our hope is that reporting by April should be solid.
- Diane – do we want member loans for the remodel project?
 - o Melanie – perhaps when it’s time for updates to the Arcata store we will hold a capital campaign but it doesn’t make sense for the Eureka remodel.
- Diane – what is he sinking fund for?
 - o Melanie – we think it was set up for medical claims, but we aren’t fully sure.
- Colin – costs of goods is up but sales are down. Can you elaborate?
 - o Melanie – this is the culture of budgeting and maintaining a budget. There is no guideline for department heads for here is how much you can buy for how much you are selling. Buyers are not adjusting as often as they should.

ACTION: Brandy will look into why the Arcata inventory didn’t change.

ACTION: Brandy will include comparisons on detailed financials.

7. FY19 first quarter C share dividend APR approval (currently 2.00% APR)

The group decided to take no action and leave it at 2%.

8. Remodel update – Reported by Melanie

We received our permit from the Department of Health and Human Services and the bank can now move forward with closing documents. We will then put deposits down on equipment. We are meeting the contractors with key staff next week. At this moment demolition wouldn’t start until February 26. It will be a challenge to write schedules in line with our union contract. The schedule must be posted three weeks in advance. Once posted, the schedule can be changed but lots of other factors kick in and it gets more complicated. The HR director and I have met with the Union representative about the process.

- Robert – is there an opportunity to review remodel expenses/losses more often? Can the board offer more information to the membership more often than quarterly?

- James – would like to get monthly board meeting updates on the remodel.
- Chris – wants resources focused on the base financials, not the remodel.
- Melanie – the board receives a monthly balance/income statement with a narrative.
- James – emailing monthly financial statements to the finance committee makes sense.
- Colin – as far as remodel project, I'd like to review where we are relative to budget/proforma at some point.
- Diane – what type of loan did we get for the remodel. It's imperative to get true financials to reflect what is truly going on to know if we can be paying this loan.
 - Melanie – we have a 6-month draw period. It is similar to a construction loan.
 - James – general sense is to focus on the core business accounting.
- James - at some point I'd like to review health care expenses.
 - Melanie – we are getting bids from three different brokers, one being a hybrid of partially self-insured coverage. We are also looking into health savings accounts. Everything will need to be negotiated with the Union. It will be a lengthy process.

ACTION: Emily will email the monthly financials to the Finance Committee.

9. Member input on reports

- Chris – likes the basic summary reports.
- Melanie – the key indicator report from NCG is to see the difference between their reporting and our reporting. We hope to move more towards the style of the NCG reporting.
 - Diane – likes the comparison quarter to quarter. The group agrees.

10. Agenda items for next meeting

- FY19 second quarter C share dividend APR approval
- Review FY18 fourth quarter financials
- Review the FY19 budget

ACTION: Emily will send the draft budget to the Finance Committee and invite them to attend the March 1 board meeting.

11. Meeting adjourns

Meeting adjourned at 7:40pm *Minutes submitted by Emily Walter*

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