



Finance Committee Meeting Minutes

August 29, 2018

Ten Pin Building Mezzanine

Present at meeting

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

Absent: Chris Copple (Member at Large)

Staff: Melanie Bettenhausen, Emily Walter, Nick Tyner, Kirsten Lindquist

Members: Lisa Blandford

Guests: Nathan Haubrich and Jeff Knier from RFS– via phone

1. Welcome

Meeting started at 6:01pm by James Kloor. Introductions were made.

2. Approval of minutes

Motion: Approve finance committee minutes from May 10, 2018.
Minutes approved by consensus.

3. Member comment

- Lisa – when are minutes posted for meetings?
- Emily – they are posted following their approval by the committee.

4. FY19 first quarter financials – Reported by RFS

We produced reports based on formatting from your past documents. We'd like to use a different format in the future. There's been a fair amount of operation losses in these periods. From a top line budget perspective, sales results are at expectation for the most part but there are large payroll expenses. Looking at cash Q1 2018 compared to last year, income is decreasing – inventory is up \$200K from last year, and there are increased equipment costs (\$200K – lots of work in progress). Sales revenue and costs of sales are in line. Payroll is at 31% which is really high. Much of this is coming from benefits and the Humboldt IPA self-insurance plan. Health insurance costs have exceeded expectations.

- Melanie – there is also the extra two-weeks of payroll in P1 (\$200K) which may be adjusted to go into 2018 where it belongs.
- Diane – indication that \$500K were taken out of reserve. Where was the reserve?
 - o Melanie – in the CCU sinking fund and the CDARS with Redwood Capital.
- Diane - is the prepaid workers comp accrual?
 - o RFS – the liability shows you what you have left to pay on that policy – line 3407. There are five more payments to make. We've paid more than what has been written off, which is typical.
- Diane – prior year to date is large and nothing shows in this year's employee benefits.
 - o RFS – prior year was accrued health insurance costs. We don't have a way to know those at this point in the year. We could choose to have a flat weekly amount. We don't know what that dollar amount will be.
- Diane – sinking funds are usually funds put aside to pay debt. Was this money earmarked for something?

- Melanie – my understanding is it was earmarked for healthcare expenses.
 - James – Chris pointed out that we should be concerned that we are using our reserves to prop up our operations.
- Colin – cash is being propped up by management of accounts receivable (AR).
 - RFS – cash was previously coded to AR, which wasn't true. We pushed to reverse that and put it all into cash deposits. We need these to go directly into cash to accurately reflect what is happening. This is more actionable information on a day to day basis. We no longer need to wait until the end of the month for cash reconciliation.
 - Colin – How do we compare cash on hand now to previous years?
 - RFS – last year credit cards were in AR instead of cash on hand.
- Colin – accounting for the \$200K of payroll that was put in the wrong quarter, we're still significantly over budget for payroll.
 - Melanie – I created a worksheet to understand this. If you put the two weeks of payroll back into Q4, payroll in P1 is 1% above budget. Payroll as a percentage of sales is looking good and we continue to work on it. A few things are causing payroll to be higher than budget. We based this year's budget on last year, and we didn't have a full management team until half way through the year last year. We had 30 cases of retro raises that had to be rectified. We had large PTO payouts for people leaving employment, or on leave of absences. I don't have detailed payroll information but I'm working to get better reports from the Payroll Clerk.
 - Diane – I urge the board to push the priority of hiring a Controller. I hear Melanie spending time studying reports. A Controller should be doing this, and Melanie should be managing the store.
 - James – between Q4 and Q1, if you took out the \$200K of 2-weeks of payroll it looks better. We are waiting to work with the auditors to move this.
 - Melanie – I don't want it to sound like labor is not a problem. We have work to do in controlling overtime, especially in the deli where there is high turnover. As we move into the coming periods, our revenue is declining when the Carr fire started, which means we need an even tighter handle of payroll.
 - James – is it labor that is getting us or the benefits?
 - Melanie – it's both.
 - Ed – year to date PTO is up over \$100K.
 - Melanie – the silver lining is that we have these numbers in front of us now, which is a better place than we've been in a long time.
 - RFS – I echo what Melanie said. To my eye it is both payroll and benefits.
- Colin – Melanie mentioned that there was a discrepancy with the consolidated and detailed balance sheets.
 - RFS – the rolling income statements aren't matching up because of backdating issues last year. I can't point to exact reasons that it happened, but a lot had to do with backdating entries into periods that were closed which weren't updated in the excel sheets, but only updated in Sage. When adjustments were made into previous periods, the financial statements that were already produced were not changed to reflect it. I would want to change the statements to make sure it's jiving with any adjustments.
- Diane – did RFS adjustments change the income statement?
 - James – last year there were ledger adjustments made to Q1 that we carried on the income statements for 3 quarters with an asterisk. The year to date didn't add up to the income trend summary sheet.
 - Melanie – RFS used the worksheet that they were given by the Co-op. Procedurally we have not changed financial statements after adjustments are made. We want to do this going forward.
 - RFS – It makes more sense to run reports from your accounting software.

- Colin – It is confusing to not go back and fix previous financial statements. Somewhere we should keep a running tab of any adjustments that are made. These should be presented to the board and finance committee.
- James – having notes on financials is a great idea. Let's talk about that during member comments on reports.

5. Accounting updates

- Melanie – We've had 91 applicants for the Controller position. We've interviewed five and conducted second interviews with two. Both declined offers. Both didn't think we pay enough. NCG recommends ~\$125-\$140K for that position which isn't in our realm of ability. We continue to receive applications. A large portion are from out of the area applicants. The quality of applicants has been poor. We recently posted on ZipRecruiter.
- James – the two candidates we did second interviews with were great. The struggle we have is that we are looking for the CFO type that also does a lot of on the ground work because we aren't completely clean in the accounting department.
- Cheri – how much would it cost if we were to rely on RFS for a year?
 - Melanie – they charge \$85/hr. It was over \$8,000 for last month's work. We are paying about the same amount we would be paying a Controller with no benefits to pay. But we don't have someone to oversee the accounting staff.
- James – how is RFS working with staff?
 - Melanie – they communicate over the phone and via email. They work a lot with our fiscal assistant to do a daily bank reconciliation, including merchant cards. Staff are responsive. They want to do things the right way.
- James – statement of cash flows?
 - Melanie – it's on RFS's lists to work on.
- Diane – Wegner and Associates recommend changing the bylaws concerning the year-end. How did the bylaws get changed without a member vote?
 - Colin – the only bylaw changes that need approval by the membership are ones that materially affect the rights of members. Changes like this don't need member approval.
- Diane – why did we purchase hoods for a remodel that is on hold?
 - Melanie – they should not have been built for us. Someone jumped the gun. We would have a lien on the property if we didn't pay for it. We are putting feelers out to see if anyone wants to buy them from us. The remodel is on hold, we don't know if we'll need them or not.
- James – we pushed the audit back because we didn't have financials. Is Wegner still waiting for us to get a Controller?
 - Melanie – it's possible that we could work with RFS and current accounting staff to complete the audit.
- James – the IRS payment period for patronage refund after the fiscal year closes is December 8. There is a +\$200K adjustment in previous year that is not reflected in the rolling quarters. If the two weeks of payroll are adjusted into the previous year, then we don't make a profit and don't have to distribute a patronage refund.
 - Ed – my understanding is that if we have a profit, we must do a patronage refund.
 - Colin – what the IRS says and what our Bylaws say are different.

ACTION: Melanie will ask Wegner about this – they calculate this for us.

- Colin – My take away from our finance discussion is that we have low margins and every time a little thing goes wrong, we're in trouble. It's troubling that we are using our reserves. There have been a lot of C-Share being bought back. We need to start marketing our C-Shares.

6. Approved FY19 third quarter C share dividend

- James – a member wanted to cash out \$40K in C-Shares because they could get a better rate with a CD. If we could offer better rates on C-Shares people might stop pulling their C-Shares, or it might be easier to get new investors in C-Shares. Should we raise the C-Shares rate to be more appealing to investors?
 - o Mary Ella – I think we should be in a better position financially before raising the rate.
 - o Colin – a lot of new members don't understand our share structure or understand that there is an opportunity to invest in the Co-op.
 - o James – I'm not apposed to keeping the 2% rate, but I like having this conversation. I like the idea of better marketing to members.
 - o Diane – compared to market, a 2% dividend looks good.
 - o Laura – took a poll of a longtime Co-op member. She has C-Shares to support this business, not to get the dividend.
 - o Colin – believes that a lot of people will make an emotional decision that they want to support the Co-op. Marketing C-Shares is an opportunity to increase cash while engaging people and educating people about our Co-op infrastructure.
 - o James – sounds like the consensus of this group is to keep the dividend rate at 2%. I believe the Marketing Director is working on updating the materials of the membership packet.

ACTION: Have Marketing present updated C-Share Membership outreach at next Finance Committee meeting.

7. Member at Large terms

James – Chris's term is up following this meeting. Chris is interested in doing another 2-year term. We will add this to the agenda at the next Finance meeting.

8. Draft procurement policy

- James – the board can set a procurement policy for the General Manager to follow.
- Colin – to clarify - the proposed policy is just the highlighted portions of the table in the packet.
- James – does this seem like we're going in the right direction?
 - o Melanie – I like guidance for communication between the board and management.
- James – are we are missing something in relation to the Union?
 - o Melanie – there should be something about the Union. It's a contract and there are expenses that could be high in relation to changes in the contract.
 - o Colin – I think the contract should be in the policy.
- Diane – what does discreet expenditures mean?
 - o Colin – trying to account for what might be considered a project/program to prevent piecemealing to avoid board oversight.
 - o Diane – I like the idea but think it should be written better.
 - o Colin – project/program agreement or discreet expenditure that will exceed \$150K should get the point across.
- Diane – deviation from budget over 10%. What part of the budget?
 - o Colin – any item budgeted for that deviates by 10%.
- Diane – where did the \$150K limit come from?
 - o James – we've already authorized Melanie to spend up to \$149K via the business line of credit, so we felt that was a good number to use.

The group likes the overall concept of the procurement policy with some better wordsmithing.

9. Set future FC meeting dates

Wednesday, November 28, 6-8pm. *(Note: This was later changed to Thursday, Nov. 29, 6-8:30pm)*

10. Member Input on Reports

- James – would like detailed statements to be included under separate cover to make the finance packet a more manageable size. Sometimes the detail distracts us.
 - o Diane – detail is far more than the committee needs.
 - o Ed – agrees

ACTION: have the detail available in excel for finance committee members that request it.

- Diane – the over and short is excellent. Good job Melanie.

ACTION: Melanie will include statement of cash flows for next meeting. Q1 of 2018 should disappear.

The expectation for future reports is that if a change is made to a report after it's been posted, the following report will show the updated changes with notes of why there is a change from previous reports.

- Melanie – starting in period 5 there should be no more backdated posts. RFS has worked closely with accounting to make this happen.
- Colin – do you have a sense of how long it will take to sell through inventory?
 - o Melanie – some items sells faster than others. It can take anywhere from a few weeks to a few months.

11. Agenda items for next meeting

- Member at Large – vacant seat
- Audit
- Patronage refunds
- Review RFPs from three different auditing firms
- Q2 financials
- Mid-year budget review

12. Meeting adjourns

Meeting adjourned at 7:58pm

Minutes submitted by Emily Walter