Finance Committee Meeting Minutes
November 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), Diane Sharples (Member at Large), Chris Copple (Member at Large), Laura Jones (Member at Large)
Staff: Melanie Bettenhausen, Emily Walter, Kirsten Lindquist, Lauren Fawcett, Laurie Talbert, Barney Doyle, Francisco Bautista, Jessica Correa, Kristen Hayen
Members: Robert Eckart (#117), Lisa Blandford, Vince Graves-Blandford, Joe James, Roger, Brenda Harper, Robert Ducate, Elaine Astrue, Danny Sokolsky, Michael Reeves, Sean Armstrong, Linda Mitlyng, David Dahler, Kathleen Pelley, Gil Friedman
Guests: Nathan Haubrich (Retail Financial Services – 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 August 29, 2018 as amended. Amendment: Chris Copple was not present at the last meeting. Minutes approved as amended by consensus. Laura did not vote.

3. **Approve Finance Committee Member Appointment** – reported by James
Chris's term on the committee recently expired. I think Chris brings a lot to the committee, including his institutional knowledge.

Motion: Appoint Chris Copple to the finance committee for another term. James motioned, 2nd from Colin, motion passed (8/0/1) Laura did not vote.

4. **Audit Update** – reported by Melanie
Wegner CPA will be onsite the week of December 10 for three days. They will have three staff on location and an additional staff working remotely. Our new Controller Barney is in contact with the auditors to get everything set up to go as smoothly as possible. It usually takes a couple of months following their visit to get a report from them. They will make one adjustment while they are here, which is the two weeks of payroll (~$250K) that was posted to this fiscal year that should have been posted in the previous fiscal year.

- Diane – we're pushing close to the end of the tax extension.
  - Melanie – yes, we are. We have a tax extension filed, I believe through February, and Wegner is aware how close we are cutting it.
  - Barney - the IRS did approve the extension.

5. **Eureka remodel costing presentation** – reported by James
This agenda item came from a board meeting where members were interested in knowing the expenses involved with the Eureka remodel. The board tasked management with presenting everything that had been spent on the Eureka remodel. A report is included in the Finance Committee packet.

- Melanie - the report is broken out by fiscal year, starting in fiscal year 2017, so that you have an idea of how long the Co-op has been working on this project. Expenses are broken out by vendor and by fiscal year. We have a working capital loan of $350,000 for the current Eureka upgrade project. We expect to come under budget on the upgrade and hope it will be complete by the end of December.
    - Mary Ella – I thought the upgrade was suspended. I don't understand why we are continuing to spend this money.
    - Melanie – the Eureka Remodel was suspended. Following that we moved forward with upgrades to the production space, so the deli can produce more prepared foods. The board approved this project which was included in our business plan and when the board approved the loan. The collateral for the loan is inventory.
    - James – some of these upgrades were necessary due to failed equipment and not being able to use the kitchen without some of these upgrades.
    - Barney - the loan interest rate is 5.625%. We are reviewing the allocations for the current portion of long-term debt because there were issues with the journal entries that were done by RFS. I've made some suggestions to correct them.
    - Melanie – RFS wasn't breaking out payment to principle versus the interest.
- Kirsten – what is a proforma?
    - Melanie – it's a financial document that shows us what we expected to make in ten years with the project completed.
    - Diane – I was unaware that there was a proforma for this project. Does it have the revenue you expected to get from the project? Is it available to see?
    - Colin – the board talked about the proforma quite a bit and it was updated several times.
    - James – this worksheet highlights how damaging a project that takes three plus years is. Look at the number of times that we had to pay a consulting firm to update the proforma. Every time bank rates changed the proforma had to be changed.
    - Colin – the information provided by the proforma with adjustments was one of the reasons we put an indefinite hold on the project.
- Diane – is $350K loan in the sinking fund or comingled in the operation funds? I suggest it be moved to a sinking fund so that it can't be spent on operations.
    - Barney – that makes sense and whatever money is left when the project is complete can go back into paying off the balance of the loan.
- Roger – I think a lot of people have the general reaction that we didn't get anything from this. We spent money on a failed remodel that we can't get back. I think the members and workers need to know that there may still be value in the money spent.
    - Melanie – the less visible results that we've gotten out of this was consulting with Thought For Food. This includes the proforma, menu items, recipes, training manuals, floor plans for layout and work flow for an efficient deli operation. Deli staff are using what they've gained from trainings. All the floor plans, engineer drawings and everything that got us to permit are still in effect. If we choose to pick this back up in its full state or a modified version, we're well on our way to being able to do that.

- Diane – there is $8,000 deli equipment deposit. What is this?
    - Melanie – the contractor doesn't charge for the floor plan with an agreement that we purchase equipment from them. The $8,000 was a deposit on equipment to get the floor plan to get us to permit. We did not get the equipment because the remodel was put on hold.
- Chris – the last six quarters shows we've bought $100K of equipment every quarter.
    - Barney – fiscal year 2019 costs aren't showing as expenses yet. They are still going into work in progress, or "equipment" on the balance sheet.
- Michael – I have a previous version of this same information that was a little bit different. You mentioned you have a more complete version and I think that rather than a scaled down version I'd like to see something a little more detailed. What kind of value did we get for our payments to NCG in relation to this project?
    - Melanie – there are a lot of NCG entries on the sheet I had given you but there is also a credit. NCG did some proforma work, floor plans, merchandising plans and basic project support. We had started out with them on that project with a ~$70K contract and that contract ended in fiscal year 2018 because they didn't provide project management and their service seemed like a duplication. When we canceled their contract, they reimbursed us a chunk from that contract.
- Michael – members would like to have a system of oversight in place that would prevent this from happening in the future.
    - Melanie – there are a few things different now and going forward. We have an involved Finance Committee that includes three involved Co-op members serving on that committee. We now have a Controller who understands these types of projects and will be the oversight in the future. I now have more experience going through this with hindsight. The board also has learned a lot and has institutional knowledge. This was a big learning process for some of us. I have strong ideas of what needs to change going forward. I've shared them with the Treasurer, with Barney and the Management Team.
- Michael – at the last board meeting there was mention about a policy being created for oversight.
    - Colin – the proposed Expenditure Control Policy talks about discrete projects so that you couldn't take a big project and piece meal it into tiny bits and not get oversight. More so, that did not happen, even without a policy in place. The board did see the project and had input on it many times throughout the process. In retrospect different decisions could have been made. We were operating on the information we had at the time. The reason we are going forward with smaller upgrade improvements is because the premise of the project is sound. We do need to make improvements in the Eureka store to increase sales at the Eureka store. Prepared foods drive sales there. I don't think there is a lack of oversight, but that our judgement was not on point.
    - Michael – can there be a cap set for money spent outside operations?
- Vince – would this board be willing to receive financial training that may cost up to $10,000 but it might not cost us $100K. To spend the members money so you can learn a lesson at that dollar amount is unacceptable.
    - James – we'll get back to you following speaking with RFS who are now on the phone.

6. **Fiscal Year 2019 Second Quarter Financials** – Nathan Haubrich, Accountant w/ RFS via phone
   First off, the major thing I saw was that sales for the quarter were down. I don't know the cause of that. I saw a dip around $70K-$80K for Arcata and Eureka. I understand the discounts were taken off the revenue section and moved to the general/administration section. Those discounts were about $90K for the quarter, which means sales were really down around $180,000 this quarter. The main culprit this quarter is a reduction in sales. I'm curious if there is any light to be shed on why sales are down?

- Diane – does it make more sense to have the discounts in the revenue section as an expense?
  - Melanie – NCG best practice is that they are recorded as an expense. This change started this fiscal year by a recommendation from NCG.
  - Nathan (RFS) – it's just something to keep in mind when comparing to previous year. Sales are the biggest drop we are seeing. There's not a huge increase in expenses. Year to date in Arcata there was a big jump in payroll expense. I know part of that is related to payroll expense that was expensed to the wrong fiscal year. For the quarter to date we are about $15,000 over in payroll.
  - Kirsten – does that mean sales from the previous year are inflated because of where the discounts were put?
  - Nathan (RFS) – no - the bottom line remains the same.
  - James – these two quarter sales look better than if the discounts were where they were last year.
- Kirsten – why haven't we moved the payroll expense? It's simply a matter of moving numbers around. Why do we keep bringing this up?
  - Barney – it will change the previous year from showing a profit to showing a loss. It will affect taxes. It will affect going forward with what happens this year. We are talking about moving expenses into a prior year that has already been closed. The auditors have to go through and make that final approval. This will happen when the audit occurs.
  - Kirsten – I understand all that. But why didn't it happen in the first place?
  - Melanie – it had to do with how we were posting payroll. Instead of splitting payroll out to the weeks they corresponded to for sales. It was being posted incorrectly and two weeks ended up in this fiscal year when they should have been in the previous fiscal year. The expense corresponds to the sales in the previous year.
  - Kirsten – so it won't affect our cash projections?
  - Melanie – no, it doesn't affect cash on hand.
- Nathan (RFS) – I'm curious what you have noticed as far as sales being so far down this quarter.
  - Melanie – we attribute several factors. Fires closed the highway and cut off tourism. We are feeling the impact of marijuana legalization in our state which is a large part of our local economy. Our competitors are doing a good job, especially with prepared foods. We are losing customers to new competitors.
- Nathan (RFS) – the main thing I'm seeing really is a reduction in sales. I'm also seeing a lot of health plan expenses. Quarter to date = $295K, compared to $38K last year. That is your biggest expense that needs to get under control. That, plus I'm seeing about twice as much PTO being paid compared to previous year. Total of ~ $300K swing in the wrong direction.
  - Mary Ella – that is the first time I've heard an actual explanation for internal things that are our own actions that may be causing this situation.
  - James – the healthcare expenses are a recurring issue. Is there a plan to mitigate that?
  - Melanie – the plan is in play. Our switchover to a new third-party administrator started August 1. The bulk of the large claims were in July. We're still going to have random large claims that we can't mitigate for. The general cost for health care that aren't those large claims is less. The plan is that we switched administrators and negotiated a plan that will cost less for employees as well as the Co-op. Our administrative expenses are lower and the premiums for stop loss insurance are lower. I'd like to work with Barney to get a better plan in place to respond to the outliers.
- Nathan (RFS) – if you take the uptick from last year's quarter to date in health plan expense, PTO and Workers' Comp, those things plus an uptick in payroll, you're over $400K. If those things were put under control you would see similar numbers to what you saw last year as far as actual expenses that are controllable.

- Colin – occupancy expense is over budget. The unbudgeted rent only accounts for a portion of that. Where is the rest coming from?
    - Melanie – I think it's from security. It was budgeted for general/administration but is getting posted to occupancy.
    - Nathan (RFS) – security accounts for ~$50,000 that should be in general/administration but is being put into occupancy. General utilities are also higher than budgeted and higher than last year.
- Colin – I noticed that we've changed the way we are accounting retained earnings. They aren't being adjusted quarterly. Instead there is a current earnings line. Is there a reason for this?
    - Nathan (RFS) – I've never known anyone to adjust retained earnings during the year. I would only adjust at the beginning of the next year.
    - Barney – I agree – it only gets done once a year as a year-end function.
- Colin – what is included in prepaid expenses in the balance sheets? I'm wondering because we've been talking about extending terms. Is this where we would see it, in prepaid expenses?
    - Chris – no – in accounts receivable and accounts payable.
    - Nathan (RFS) – prepaid expenses include a ~$10K Renaissance Computing contract, a ~$20K SPCR contract. That would be about a $30K increase in the prepaid account that get written off over the life of the policy. This is best practice.
    - James – I think we previously talked about amortizing our payments on longer term expenses so that we don't just get hit all at once. If there is one invoice for a year's worth of support for something you can put it into prepaid expenses and then every month take a twelfth of it out so that it hits the books in a more meaningful manner.
- Colin – why is payroll over budget? It's not over last year but it's over budget. How did the budgeted payroll end up so low?
    - Melanie – how we came up with those budgeted numbers was taking the prior year's expense and divided by twelve which is not accurate. It didn't include two managers salaries. It didn't account for seasonality, overtime pay, and PTO pay. That's not how the budget will be done going forward and it's not in tonight's budget projections.
- Colin – we've made progress on inventory, getting half way to our goal. What are the plans for further reductions?
    - Nathan (RFS) – the inventory change is an account that I'm not used to seeing. I suppose it's helpful for knowing the actual change. Most of the time we take it out of purchases and put it on the balance sheet. Technically, everything in your inventory is the result of a cost of sale or purchase as it's called on the Co-ops P&L. When we take a physical inventory count at the end of the quarter it's obviously different than the previous quarter. The result is parking more of what you have into purchases or if inventory is less it's a result of moving it out of purchases. That's the rationale behind the inventory change account.
    - Melanie – we only show it quarterly when we do inventory. The change is reflected in our Cost of Goods Sold (COGS). So, it looks like we're spending more, if you're just looking at costs of goods in the sense of purchases.
    - RFS – if your inventory goes up, you're taking it off your P&L and parking it on the balance sheet. Everything that goes into inventory is originally funneled through the purchases account. So, if inventory increases its really just a matter of taking out costs of sales, which is a reduction to the expense on your balance sheet and putting it into inventory on the balance sheet.
- Melanie – we are still on a steady track of reducing inventory. There's little left in the warehouse and what's left there after the holidays will be moved into the stores. We still had product left from last holiday season when there was a serious overbuy by a novice Department Head. We plan on marking it down and moving it out this holiday season. Going forward we should see

better purchasing. Our Merchandising Manager Alisha Hammer is working with NCG on product movement, pricing, margins, and strategizing to get inventory down.

  - Diane – what disturbs me is that this overbuy was by a novice Department Head. How do we avoid that happening again? Who is in charge over there? Was this in Arcata? How does that oversite happen?
  - Melanie – it was in Arcata. In terms of oversite our process has not been strong for bringing in new people to run Departments. We have put some things in place to change that with more coming. I'm uncomfortable talking about it in this setting but can talk with you about it at another time.
- Chris – I think it's a deception not to make it very clear that something as big as a $100K item has been moved from sales to general/administration. The sales drop is more dramatic than this is showing. Overall, this isn't full of contradictions like they have been for the last six quarters. Melanie's budget is totally useless. As far as basic operating statements they are fundamentally usable to make some judgement of what the trends are.

Motion: Accept the fiscal year 2019 second quarter financials as presented.

Diane motioned, 2nd from Mary Ella, motion passed (8/0/1) Cheri abstained. Laura did not vote.

{5 Minute Break}

7. **Mid-year Budget Review** – reported by James
Six months ago, we had a budget presented to the finance committee that was rushed because of the delayed Eureka Remodel. At that time the finance committee recognized that we would need to do a revision and review the budget half way through the fiscal year which is why we are doing a budget review at this time. With sales being down it also helps us adjust and project where we will be for Q3 and Q4 of this fiscal year. We have two scenarios to review.

- Melanie – I concur with Chris. The budgets are garbage and point taken. The mid-year budget projections are not what I'd like to see in the future, nor what Barney would like to see. I wanted it to be easy to read but I have more detail if needed. Ideally our budget projections would be pulled from our accounting software and we could play with numbers and scenarios easily. We are not in a position to do that yet. We are doing a lot of foundation building within the system to get us there. The budget that was approved was never fully entered into our software so pulling up reports isn't easy. We didn't have budgets by Department, so that information is also missing for doing comparatives.
  - Vince – your budget was approved after the start of the fiscal year?
  - James – yes. When the Eureka Remodel was halted the board asked for the proposed budget to be adjusted accordingly. We knew the proforma would no longer be applicable.
- Melanie - there are two scenarios with basic assumptions. The thing that changes is the labor in each one with the goal of showing the impact of labor on our operations, especially when sales are down. In September we did schedule reductions for mostly hourly staff to avoid overtime. We laid off six people in October, including the entire Demo Department. The end of Q2 is the end of the high labor numbers and going into Q3 is when we'll see labor come back into line because of the changes we've made and because of the decrease of labor by attrition. The assumptions are the same for revenue on both scenarios. In Q3 we left November and December as they were in the original budget but 2% down from those original budgeted numbers. Over the Thanksgiving holiday we were up 2% in Arcata and just above in Eureka. Going into Q4 we believe we're lapping what was a bad quarter. The 6% down we don't think

will carry into the Q4. Deli Manager Lauren Fawcett and Operations Director Alanna Labelle looked at Department trends and historical data to come up with revenue projections. Some of the projections are based on changes coming from prepared foods. We're increasing the price on our hot and cold bar. We're getting a new large hot bar in Eureka but also a new merchandising case in Arcata. Eureka prepared foods has an uptrend over last year even when overall store sales are not up. COGS are based on what our margin goals are. Q4 will be 14 weeks versus 13 weeks this fiscal year because we'll have a 53-week year this year. The additional week is accounted for in those numbers. Lauren and Alanna created detailed payroll projections to go with the revenue and purchases projections. Payroll is different between the scenarios.

  - James – Q3 Scenario 1, which has no labor cuts, is $10K less than Scenario 2 which does have labor cuts. If Scenario 2 had more labor cuts, then I would assume Q3 would have a larger variance than the original budget.
  - Melanie – this is because when the detailed labor projections were created for Scenario 1, what they came up with was higher than what our current labor is. Scenario 2 considers where our labor has been trending and brings us in line with our target percentage of sales. The difference between the two payrolls, in general, is a difference between how they were developed. Scenario 1 has the specifics of each department and the associated labor verses looking at it from where we are to where we need to get to.
  - James – so Scenario 2 isn't a reduction based off Scenario 1. It's a completely different thought experiment.
  - Melanie – yes. in January – to go from where we are with labor now to where we need to be with the sales as they are projected, we need to reduce labor by $48,000 just for January.
- Diane – have you talked to the Union?
  - Melanie – the Union meeting was scheduled for today, but it was cancelled and needs to be rescheduled.
- Diane – grocery stores struggle to get 1% net income. In Scenario 2 I'd prefer you not be optimistic of getting 2.9% in Q4.
  - Melanie – I think it's high partly due to the extra week in that quarter. There are some expenses for the period that don't increase in correspondence to the revenue of that period. There are some standing expenses that won't increase, like rent. I'll take a deeper dive into that number to make sure it's correct.
- Melanie – for January it is an 8% overall labor reduction and in March it would be 7% reduction. For January that is ~$48,000 labor reduction and ~$37,000 reduction in March from where we are right now. Where we are right now is slim going into the holidays. We have room to reduce after the holidays. We will carry the reduced schedules that were implemented in September into the new year. It roughly comes to reduction of fifteen staff if you think of it in terms of people. It's ~539 hours a week reduction. We lose 2-3 people a week to turnover. We've lost four in the last two weeks. We could lose another 8-12 people in December. By the time we get to January we could have reduced by 15 just from attrition. We won't rely on this. And it's only one way of getting to where we need to be.
- Kirsten – so we could meet our payroll reduction needs just through attrition?
  - Melanie – I don't want to say that definitively. The rate that we lose people could bring us to the point we need to be. We need to look at that closer. We'll be taking a deeper look at each Departments labor with Department Heads and analyze any changes that can be made, such as restructuring. There needs to be more people involved in these conversations.
  - Kirsten – are you just looking at floor staff - Union staff - and not looking at administrative staff? The staff recently lost to attrition have all been floor staff. Not replacing them is making it harder to sell more.
  - Melanie – no. we are looking company wide, beyond just floor staff.

- Chris – so this budget is saying that in the next two quarters you're going to change the bottom line from negative 3.9% to 3% positive. A change of 6.8% in two quarters. I'll congratulate you if you do it.
    - Melanie – yes. We've done a lot already to make this a possibility. We won't be positive by the end of the year, but we should be positive in the last two quarters.
- Colin – have you looked further at margin strategies in addition to labor reductions?
    - Melanie – that is part of the pricing change for the hot bar and that is exactly what our Merchandising Manager Alisha is working on with NCG.
    - Colin – is that built into budget projections?
    - Melanie – it's not directly built-in but this budget assumes that we are going to achieve the gross margin that we are aiming for.
- Sean – the Co-op lacks a strong identity in signage and themes. You can't donate anymore. I feel customer service and member engagement is lacking. For this crisis I think we should focus on holiday sales. Let's focus on the community spirit that makes our Co-op great.
- James – why is Q4 projected to go up by so much against the original budget when it's our slowest quarter?
    - Melanie – because there is an extra week in Q4.
- Melanie - we did slash a lot from the budget. General/administrative from the original to the projected budget is down 1.9%. Occupancy is up because the Ten Pin rent wasn't in the original budget. Our inventory service and the expense for RFS weren't in the budget and were added in. So even with adding those things in, we still managed to bring general/administration down 1.9%. Ten Pin rent is in there through February.
- Colin – can you address assumptions about health plan expenses.
    - Melanie – they are the same. There is no scenario for a large expense yet, but I would like to work with Barney on that.
- Melanie – we know that too much labor is causing a negative bottom line. There have been other expenses higher than budgeted, including healthcare. We are working to get it all back in line and part of that is just knowing where the line is. Bringing on RFS has gotten us financial statements and reporting that tells us what we need to know to make strategic decisions. My emphasis is on Scenario 2 in terms of making sure that labor and expenses are in line. In terms of how the budget impacts cash projections, that is a next step. With increased sales over the holidays we extended the run out of cash date from December 8 to December 29 without tapping into our line of credit. An extended line of credit ($149K to $500K) would get us into February even with no changes in labor or lowering of expenses, which we will be implementing.
    - #117 – repeat what you just said. You're going to increase your line of credit from $149,000 to $500,000. What is the asset?
    - Melanie – yes. It's a standard business line of credit. We already have $149K and we are asking them to extend it to $500K. For an operation of our size, that amount is really more in line of what our line of credit should be.
    - James – to be clear or add more clarity to the conversation, if we don't take out a line of credit there is a chance that we'll be in a serious cash liquidity problem and we won't be able to pay our bills. This is the situation we are in and is why we are talking about taking out a line of credit.
    - #117 – why you have not dismissed this person is an intriguing element of this entire picture. Thank god we have a new Controller who understands what these words mean. I have a committee behind me that is going to now petition you to remove this person. To remove this person, we're going to have to remove you Colin Fiske because also in my investigation we can't even find any record of an actual job that you've had. I'm curious how you can be a CEO of a 30-million-dollar corporation and never have had a job?
    - Elaine - I see the meeting ground rule #6 says to treat everyone with respect. I too am upset at the prospect of losing the Co-op, but I give the benefit of the doubt to the

people that are doing a really difficult job. I think they are doing a good job tonight explaining to us what they are up against and how they are addressing it. I'm not endorsing any decisions that have been made. Nor am I negating your point of concern. I ask that you observe #6 of the meeting ground rules. Treat everyone with respect.
    - #117 – unfortunately I don't have a lot of respect for what the results have been. So, don't feel too comfortable. It says here that you have to have enough understanding to understand that these numbers are bullshit.
    - Member – please be respectful.
    - #117 – so I'm being disrespectful and I'm going to end my little diatribe.
    - Melanie – I invite you to participate in the Nominating Committee because currently in our bylaws and policies you don't have to have experience doing any of this stuff to serve on the board. If you want to look at the source of a problem like this, it has to do with that process in my opinion.
    - #117 – you, in my opinion, have no background in this field, which requires executiveship. As far as I can read, a $730K loss is under water. I don't how you would ever have an owner of a corporation allow you to continue as General Manager.
    - James – we need to move on with the agenda.
    - #117 – okay. I'm done here but I'm not done here. You'll hear from me again. Don't get too comfortable.
- Gil – I came here four weeks ago. You have not notified your customers of this crisis. I told you to put something at your registers.
    - Melanie – this speaks a little to your concerns Gil. Over Thanksgiving, sales to members in Arcata were 69.88%, which is high. The average for Arcata is usually 60-62%. Eureka was at 59.46% and is usually between 53-55%. The media exposure has helped us. People are telling us they want to support the Co-op. Laurie has materials prepared to go out tomorrow or Monday, dependent on staff training.
    - Vince – Melanie says the sales to members are up. Sales to members go up if non-member shoppers go away and don't shop. That could easily happen if you lose 100 non-member shoppers. Your member shopper number goes up. So, trying to use that as an indicator is great as a percentage but unless we look at data it's not rooted in reality.
    - Melanie – my numbers are coming from data and there is a lot of information that is feeding into my assumptions.
- James – I need to bring us back to the mid-year budget review to get through this agenda item. We are talking about Q3 and Q4 for fiscal year 2019. We need to agree on some sort of budget review. There are two scenarios to be considered or we can discuss other changes to be made. My questions for Scenario 2 – are we cutting enough? Is what we're cutting damaging to sales or the health of the Co-op.
    - Barney – this is a fine line. You cut too much, and sales go down. But you can't have the same amount of labor continue. How do you reduce hours and keep sales going? We know how much needs to be cut, but we need to figure out the best way to implement those cuts.
    - Melanie – we met with the Management team this morning to look at labor. We are getting weekly labor reports from our new HR software, which we didn't have before. Alanna and Lauren have Department targets that they've established. Next, we need to take this data to the Department Heads and refine it.

Motion: Diane motions to accept budget Scenario 2 with the caveats that gross profit is overstated and if that dropped then the net income percent would drop to something more realistic.
- 2nd from Chris

Discussion:

- Colin – I'd like to address where the cuts are coming from. If we are looking at attrition versus laying people off – but if people are leaving from positions we need to fill – we won't be able to rely on that.
- Kirsten – sales were up for the first time during the week when staff had their full hours back. The Marketing Department is too high. We need to cut to the bone. Please look hard at yourselves and at this place. We aren't moving fast enough or deep enough. There needs to be more cuts, but not on the floor. You don't understand how hard it is having one manager between two stores. People that have worked here for a long time are thinking about quitting. It's hard right now. People feel vulnerable.

Motion: Accept budget scenario 2 with the caveat that gross profit is overstated and if that dropped then the net income percent would drop to something more realistic.

Motion by Diane/2nd from Chris, motion passes (6/2/1), Mary Ella/Cheri opposes, Colin abstains, Laura did not vote.

- Vince – what Kirsten has said is an echoing of what NCG stated to the management team already. Cuts needed to happen at the administrative level. It's the inability to cover expenses at the administration level that has put this Co-op in such a financial burden.
    - Mary Ella – I agree with everything Kirsten said. Melanie is not handling this like an emergency. She never managed anything this big before and she doesn't know what she's doing. We need the people on the floor. We don't need all this advertising and management overhead.
- Chris – now that we've reviewed the statements and budget, I think the Finance Committee should make a recommendation of the assessment of this to the board.

Motion: Chris motions that the financial information provided to the committee has far more internal coherence than any information we've gotten in the last six quarters. It describes the condition of the Co-op over those quarters much more clearly – even with flaws - but gives a reasonable financial condition of the Co-op and the trends. Those trends indicate that management has inadequate ability to plan and execute a project, control expenses or build sales.

- 2nd from Mary Ella

Discussion:

- Diane – I'm disappointed that Melanie has not met with the Union yet. You need to talk and see what they have to offer or are willing to accept. They want to make this work too.
- James – I agree we are getting better financial statements. I lose traction on the "no ability to address the situation."
- Chris – it's getting worse as the quarters go by. Payroll is exploding. The budgets don't get better so the planning is not there. The remodel project was a disaster from the beginning.
- Elaine – can I suggest for the rest of the meeting to refrain from personalizing. Let's discuss the issues and how we are going to address them. I'm uncomfortable with personalizing. I'm aware there is a macro economic situation here. I'm not trying to let anybody off the hook. I'm very concerned about the Co-op. I'd like to move forward in an impersonal and professional manner without ringing our hands and without putting all the blame on one person.
    - Mary Ella – if we can't change our GM we are screwed.
- Chris – we can amend the motion changing "no ability" to "inadequate."

Motion: Report that the financial information provided to the finance committee has far more internal coherence than what we've gotten in the last six quarters. There are flaws but it gives the condition of the Co-op. Management has been inadequate in planning and executing projects, controlling expenses and building sales.

Motion by Chris, motion passes (6/3/0), Colin, Leah and Ed opposed, and Laura did not vote.

8. **Review RFP Responses from Auditing Firms** – reported by James
We sent out six requests for proposals to different auditing firms. Unfortunately, we only got back one full proposal. We had a great conversation with a Northern California firm, but their cost was too high and thus they didn't submit a proposal. We did get a proposal from Wegner CPAs who have done our audit for the last three years. We sent requests to two local firms.
    - Diane – Jackson and Eklund have done it in the past.
    - Melanie – we pay about $26K for our audit that includes a 401k audit and taxes.
    - James - $26K is a great deal for a company of our size. I look forward to working with Wegner this year and see how they do.
    - Barney – it's a great price for a package audit.

Motion: Engage Wegner CPAs for fiscal year 19 audit.

Approved by consensus. Laura did not vote.

9. **Discuss Marketing of Member Shares** – reported by Laurie
Starting tomorrow our Support the Co-op campaign begins in the Eureka store and the Arcata store on Monday. The campaign includes laminated cards at a display in the stores. One of the cards is to buy a $10 B-Share, but members could buy more than $10 worth. We've had $21K of investments in shares in the month of November, largely due to media coverage of the Co-op. We want to also look at larger investments, particularly C-Shares. We have created new investment packets for those interested in purchasing B and C-Shares.
    - James – we should include the Cooperative Community Fund as a beneficiary option.
    - Laurie - we don't currently have information in the store about investing. We've created a new brochure about investing. Its attractive and professional for a person considering investing in the coop. We're also updating materials to comply with state laws.

    - Colin – it says there is a $1K maximum in B-Shares, but I don't think there is a maximum.
        - Laurie – we're just going from past materials.
        - Melanie – I think its regulated in CA Corporate Code.

    ACTION: Laurie will investigate B-Share limits.

    - Melanie – we are different from other grocers in terms of our marketing. Our marketing includes our membership component. We maintain a database and keep our materials up to date to reflect current law, renewing permits and a lot more. I know that Laurie is working way too many hours to get all of this done and want to acknowledge that.

10. **Approve Fiscal Year 2019 Fourth Quarter C-Share Dividend**
    - Laurie - as far as the dividends we pay out, as of August 21, at 2% it is $38,400. At 3% that would be an increase of $20K annually. The people I've spoken with inform me that Coast Central Credit Union rate is 2.5%, and other institutions are offering more. Half of the

people wanting to withdraw shares say it is because they want to move them to a higher yielding investment. There are currently $305K in pending withdraws.

- James – I received an email that suggest having a tiered system. For example, investors with over $10K would get 4% and so on.
  - Mary Ella – where is the money coming from to pay a higher percent?
  - James - instead of taking out a $500K line of credit that charges us 6% we'd be in a better position to increase the current dividend rate to get people to invest and keep their money here.
- Mary Ella – we are in the grocery business and not an investment business. I want to see this in conjunction with a real plan for recovering our grocery business.
- Chris – I think we should keep it in proportion to what others offer which means raising it to 2.25-2.6%, or in that range.
- Diane – we used to take member loans.
  - Chris – I think we have enough projects at the moment.

Motion: Raise the fiscal year 19 fourth quarter C-Share dividend rate to 2.65%. Motion by Cheri/2nd from Ed, motion passes (8/1/0), Chris opposed. Laura did not vote.

11. **Discuss Posting Financials on the Website** – reported by James
This was brought up at a previous board meeting. It's a call for transparency for the financial statements. The concept is to post financial statements to the website. They are supposed to be confidential for members only. If they're on the website anyone can see them unless the website was updated with a member login portal.

- Chris – the Co-op News has abbreviated financials.
  - Cheri – how about posting what is in the Co-op News on the website with the added line of how to get more information?
  - Lisa – I like the idea of having it all in one section on the website next to where the minutes/agendas are posted on the website. I like adding the line of how to get more information.
  - Laurie – how about adding a line to the quarterly financials that direct people to the Finance Committee meetings or Board Meetings for additional financial information?
- Chris – I would like to see the Union contract posted on the website.
  - Melanie – I think that would be up to the Union.

Motion: Post the same quarterly financials as published in the Co-op News on the Finance Committee section on the Co-op website. Approved by consensus. Laura did not vote.

12. **Member comment on reports**

- Vince – will the board go through an education process to learn how to read fiscal statements because it was discussed at a previous meeting that it could cost $5K for the training which was viewed as too high of an expense. I'm suggesting the $5K of education might behoove the company of potential adverting a $100K loss in the future. I'm suggesting the board do this so that your fiduciary responsibility to members can be honored fully.
  - James – it's of interest to the board as a future topic of training.

- Colin – there are varying levels of training on the board right now. I do think the board needs more training. I don't think we should start a GoFUND me page, as was previously brought up, while we are starting an investment drive.
- Vince – showing that you've increased your education and understanding of financial is a way to show members that you're prepared to handle the investments they are giving in a responsible way.
- Colin – we have a budget for board training. We are kept informed of training opportunities that arise. At the moment we've eliminated the board training budget for the year.

- Vince – I think we should separate and isolate those loan funds.
    - Barney – we know what we've received and spent, and the balance needs to be moved.

13. Set future FC meeting date and agenda items

Next Finance Committee Meeting - Thursday, February 28

Agenda items:

- Fiscal year 2020 budget

14. Meeting adjourns

Meeting adjourned at 9:07pm

Minutes submitted by Emily Walter