



Finance Committee Meeting Minutes
November 16, 2017
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), Chris Copple (Member), Laura Jones (Member), Diane Sharples (Member)

Absent: Ed Smith (Director)

Staff: Melanie Bettenhausen, Emily Walter, Lauren Fawcett, Brandy Cogburn

Members: David Lippman

1. Welcome

Meeting started at 6:02 pm by James Kloor.

2. Approval of minutes

Motion: Approve finance committee minutes from September 27, 2017.
Motion by James/2nd from Colin, motion passes (7/0/1), Mary Ella abstains.

3. Vote new finance committee member

Motion: Approve Diane Sharples as a Finance Committee member.
Motion by James/2nd from Cheri, motion passes (8/0/0).

4. FY17 audit report

The group reviewed and asked questions about the FY17 audit report.

- What is the status of how inventories are being handled for UNFI deliveries?
 - o Melanie – we are in process of restructuring to have a new receiver position be responsible for UNFI inventories. Currently, staff have been asked to look for accuracy.

Phone conference started at 6:16pm with Bruce Mayer and Audrey Griffin - Wegner CPAs

FY17 Audit Report – reported by the auditors

- There are more assets than liabilities. There is plenty of cash to pay bills. This Co-op does not have long-term debt which creates finance stability. Conclusions from the audit show the Co-op is in good standing financially to take on a large project.
- Statement of Income
 - o 1/3 of co-ops are seeing flat or negative sales, or growing slightly. This is a national trend.
 - o The gross margin of 36.79% is about average for natural food co-ops.
 - o Not seeing any big fluctuations from previous years.
 - o Personnel being at 27% of expenses is a bit of a concern. Some of this is due to larger than average health insurance costs. A lot of co-ops are seeing this number increasing. 27% is close to the top of the range you would want to see. 28% would not be good.
 - o Lots of co-ops are seeing the same static trends for various reasons. National Co-op Grocers is working on turning this around.

Questions for the auditors:

- Colin – what is included in the access discount on the income statement?
 - o Audrey- the access discount does not include employee or board discounts. Staff discounts are in personnel costs. Access discounts = membership discounts.

- Colin – regarding patronage refund terminology – if we make a profit and we are required to pay out patronage refunds, should we have retained patronage refunds from year to year?
 - o Bruce - It's a way to increase equity. You are only required to give out 20% in cash.
 - o Retained is the amount given out in shares and not in cash. It's a different class of equity. You could choose to treat it as common stock. If a member leaves the Co-op you are not required to reimburse them for their retained patronage.
 - o Audrey – previous years, they retained in forms of cash.
 - o Colin – not sure retaining them in cash is current with our bylaws.
 - o Bruce – not sure if bylaws were different in the past.
 - o Colin – feels it should be allocated in B shares
- Robert – how many co-ops does Wegner CPAs work with?
 - o Bruce ~200 co-ops. About half are small to medium sized businesses.
- James – referring to the audit management letter - how do we dismiss a finding? James doesn't agree that the person signing checks shouldn't be allowed to mail those checks.
 - o Bruce - the management letter is their observation. The Co-op can decide that we aren't going to abide by that recommendation. The finance committee or board can authorize management to write a response to the management letter to inform the auditors if they want to remove comments, as long as there is no major conflict.
- Robert – are you comfortable with the timing of delivering the audit?
 - o Bruce – There were several issues with the timeliness. Some were on Wegners end and some were on the Co-ops end. It was difficult with high turnover in the Co-op's accounting department to get all the documents being requested in a timely manner. We'd hope that next time, working with the same people it would go smoother.
- James – what statistics did you use for testing?
 - o Bruce - we focus on balance sheets, cash, inventory, fixed assets, liabilities and unrecorded liabilities, as well as testing after year end. We look through the accounts payable list to make sure they are paid after year end.

5. FY18 second quarter financials

- David - Q1 and Q2 don't add up to the year to date total, as they should.
 - o Brandy - still working on Q2. It's not closed and adjustments need to made – currently working with the auditors on a few issues. We recently discovered an error in health care costs that was being overbooked. The total adjustment should be \$436,000.
 - o Melanie - we are trying to figure out where the original entries came from? Was that money going somewhere, like a medical trust fund?
- Chris – why is accounts receivable negative?
 - o Brandy – an incorrect entry was made. We are working with the auditors to fix this.
- Chris – did we spend \$336,448 on equipment?
 - o Melanie- I'm not confident in this number. We are working with accounting, the auditors and informing the board President of these recent findings in the financials.
 - o James would like additional internal controls for journal entries.
- Colin – why is payroll 11% under budget on the income statement?
 - o Melanie – this is because we didn't hire all the staff for the remodel.
- Colin – the detailed financial sheets show zero PTO expense.
 - o Brandy – this is because PTO has been entered incorrectly by department heads and instead of using the PTO GL, they were splitting out and adding PTO to the labor budget = double expensing.
- Colin – why is there a credit on the workers comp line?
 - o Brandy – This is another line that has been booked incorrectly.
- Chris – The budget for payroll expense is above 27% which according to the auditors is bad.

- Melanie - the budget for payroll is higher for that quarter because we budgeted for remodel payroll.
- Chris – there is an alarming inventory turnover number. Is inventory legitimate now?
 - Melanie – I’m not confident in this number. The most recent inventory wasn’t timed right which lead to a larger margin of error. Inventories have been scheduled in a more timely and appropriate manner for the next two quarters. Moving forward we should have stronger inventory numbers that we can be confident with.
- Chris – what is the joint liability fund?
 - Melanie – when the Co-op has a new GM we are put on a watch list and our risk score goes down and our payment goes up. The payments started going down slightly after Melanie past her one-year anniversary as GM. It was recently increased slightly for the remodel.
- Diane – On the balance sheet some of the investments are pulled out but they don’t add up to the total investments. Please include all investments in the future if you continue showing them this way.

6. FY18 fourth quarter C share dividend APR approval (currently 2.00% APR)

If we don’t have confidence in the numbers we are looking at, then we shouldn’t change the rate at this time. If the committee does not vote, then the dividend will remain at 2.00%.

ACTION: James will stay apprised of the 2nd quarter financials and updates being made to them.
James will contact the board if something changes and the percent needs to be changed.

The group reviewed comparisons of dividend rates of other index funds.

7. Future audit options

Wegner CPAs have been our auditors for three years. Their fee was near \$23,000 for the recent audit.

- Diane – recommends staying with Wegner because they understand our current issues. Working with a new auditor will take more staff time and likely take longer.
- Robert – why are they not catching all of our problems?
- James – would like to contact 2-3 other auditors
- Chris – agrees with Diane. Wegner is specialized with food co-ops similar to ours.
- Colin – when do we need to engage an auditor for the next audit?
 - James – Now. We should get on their schedule ASAP. 6-9 months in advance.

Motion: Direct staff to engage with Wegner CPAs about conducting the FY18 audit.
Motion by James/2nd from Diane, motion passes (8/0/1), Cheri abstains.

Motion: Report to the board that the most recent quarterly, year to date, balance sheet, operation statements, and profit and loss statement are not usable because many numbers are incorrect, making it impossible to evaluate the financial situation of the Co-op.

Motion by Chris/2nd from Laurie, motion passes (7/1/0), Mary Ella opposes (Leah has left).

8. Review updated remodel budget – Reported by Melanie

Remodel Basics – we are tripling the size of the deli and moving everything else around in the store. The meat department will be increased, as well as the cheese department. The scope of the project is over 5M. We will be using the Arcata store as collateral. The USDA program guarantee will cover 80% of the collateral. We are looking at moving equipment costs to a separate financier that will have

a lower interest. We've spent approximately \$200k in consulting fees on the project thus far. The next hurdle is the market study that the USDA requires. The market study is a yes or no answer and we should hear back any day. The proforma still needs to be updated but we are awaiting additional information before doing so.

- Mary Ella – raises concerns about the national trend of co-ops seeing flat sale increases.
- Colin – are we considering the possibility of declining sales due to cost of cannabis going down?
 - o Melanie – These are all good questions. There are many unknowns in the future and we do our best to project what we see coming our way. I do want to track any changes in cash versus credit card sales.
- Chris – when the board made the decision to do the remodel project it was to help the Co-op grow and succeed. No changes will likely lead to stagnant growth.
- Colin – We can't see the future and we are already invested in this project. If the financing pans out we should go through with it.
- Mary Ella – points out that we don't have hard numbers for our current financial state.
 - o Melanie – agrees, but we could also be in dire straits if we don't update and keep up with the times.
- Melanie – I recently met with management to review labor expenses, including some of the extra labor already hired for the remodel. Now that the current management staff have had a year or so to get used to their departments they are now able to see where changes can be made. Decisions were made to not fill some positions that are currently open as they simply are no long needed with well trained and efficient staff. We are also looking at adjusting staffing structures to increase the Co-ops competitiveness and decrease costs.

9. Set next meeting dates

- February 8, 2018 and May 10, 2018

10. Member input on reports

- David - Happy to see some positive bottom line numbers. Still clearly some issues the Co-op is working through. Happy to see expense reduction plans.

11. Agenda items for next meeting

- Review engagement letter from Wegner CPAs
- FY19 first quarter C share dividend APR approval
- Review FY18 3rd quarter financials and advise the board
- Review ideas for a having health reserve account

12. Meeting adjourns

Meeting adjourned at 8:24pm

Reports for the Board:

- Direct staff to engage with Wegner CPAs about conducting the FY18 audit.
- Report to the board that the most recent quarterly, year to date, balance sheet, operation statements, and profit and loss statement are not usable because many numbers are incorrect, making it impossible to evaluate the financial situation of the Co-op.

Minutes submitted by Emily Walter