



Finance Committee Meeting Minutes February 28, 2019

Arcata Community Center – Arts & Crafts room

Present at meeting

Finance Committee: James Kloor (Treasurer), Leah Stamper (Secretary), Cheri Strong (Director), Ed Smith (Director), Colin Fiske (President), Diane Sharples (Member at Large), Laura Jones (Member at Large)

Absent Finance Committee Members: Robert Donovan (Vice President), Chris Copple (Member at Large)

Staff: Melanie Bettenhausen, Emily Walter, Barney Doyle, Kirsten Lindquist, Kristen Hayen

Members: Faye Honorof, Kathleen Pelley, Kurt Christman, Elaine Astrue, Danny S., David Dahler

1. **Welcome** – reported by James

Meeting started at 6:07pm by James Kloor. Introductions were made.

At the November meeting we had an out of cash date on December 7. We've made it this far without running out of cash due to aggressive cash management and people stepping up. We've come a long way and we've learned a lot but there is more to be done.

The agenda has been updated. We don't have the FY18 audit in hand to review yet, but we will have an update on the status of the audit. We also don't have a FY20 budget for review, but we'll get an update on the status of that and have a discussion around what fiscal goals we want in the budget.

2. **Approval of Minutes**

Motion: Approve finance committee minutes from November 29, 2018 as amended.

Approved as amended. List Laura Jones as a member at large.

Minutes approved by consensus. (*Colin not yet present*)

~~3. **Review FY18 audit** – reported by Barney~~

3.5 **FY18 Audit Status Update** – reported by Barney

We've seen the statements and financials from the audit, submitted corrections, and now we are waiting for approval from Wegner CPAs. The tax return was filed. We are working to secure a date this summer to start the FY19 audit.

- James – my intention is to release the auditor's letter to management to the membership. This isn't usually done.
 - o Barney – transparency is good, but people could misunderstand the letter, taking things the wrong way, and think some things are worse than they really are. Due to turnover and lack of financial oversight there are still some issues to address. My job is to correct those issues. We will have a response to the auditor's recommendations.

4. **FY19 Third Quarter Financials** – reported by Barney

We continue to work with RFS. We are using a cash flow tool that allows us to look at different scenarios to allow us to make operational adjustments. Cash is still tight. An example is that February

is a short month with the usual expenses, such as rent, but with fewer days to collect income. We don't think we'll need to use the line of credit. Sales are increasing from the new hot bar in Eureka that just started this week. I commend Melanie and staff for their hard work and effort to keep the Co-op afloat.

- Diane – are Department Heads given benchmarks or specific guidelines for purchases?
 - o Barney – we are having these conversations. If sales are down by 4% then we need to buy 4% less. We aren't doing as many big buys, even though they come with price breaks.
- James - how does this effect costs of goods sold (COGS)?
 - o Barney - if there is a rapid change in cost then Alisha will change pricing to make sure we keep our margins.
 - o Kirsten – there is a time lapse. It takes a couple of weeks to see what's moving or not.
- James – when you're looking at COGs you have no control of what is selling. Comparing COGS quarter to quarter isn't comparing apples to apples. If net sales go down, then COGs might not go down in the same proportion. There's no comparison. Have we been spending down inventory more? COGs are up over last year, and sales are down over last year.
 - o Kirsten – the last inventory happened two days before Christmas. We couldn't reduce inventory as we'd like to and risk having empty shelves for the holidays.

(Colin joins the meeting)

- Barney –at the end of December we had 2.8 days of cash on hand and inventory was down. Implementation of controls is slowly reducing inventory although I'd like to see it go down faster. Member equity is up which is a good sign. This is the first positive quarterly statement in over a year.
- Diane – where is the other income coming from?
 - o Barney- a combo of rebates and coupons that added up to about \$8K. We are getting the coupon rebates in a timely manner.
- Colin – we talked about negotiating with vendors to extend terms. Is that happening?
 - o Melanie – we are at the extent of the terms that we negotiate. I don't think we'd get far trying to negotiate for 45 days. The relationships with the businesses are in place so that we can push on their good graces on a case by case basis if needed. I don't think we need to flat out change the terms.
- Diane – September is not matching November. Investments are down \$37K.
 - o Melanie – that is something that the auditors did. It's shares we have in a cooperative bank that are not cashable. Since it's not actual cash we can use, the auditors said we should move it out.
- Diane – retained earnings went down equal to payroll expenses that were moved to the prior year. I thought it would have gone up.
 - o Barney – it was moved to FY18 making FY18 negative. It reduced tax liability and changed the balance sheet for retained earnings. Going forward it changed expenses towards income. Retained earnings changed going forward. We need to add the word “revised” to the updated financial statements since the audit adjustment.
 - o Diane – our retained earnings has gone negative \$86K. That was not the case prior. It's a little muddy because of the adjustments.
- Colin – will selling the Ten Pin equipment help cash?
 - o Barney – not substantially. It's a nice little chunk. We brought in just under \$12,000. We still haven't sold the box truck which should go for \$9,500.
- Colin – in regard to the benchmarks that are reported in the summaries – we did adopt mostly NCGs benchmarks but we didn't adopt their sales growth targets because they felt unrealistic, but that was never changed. We adopted positive growth for sales growth, which is anything above zero.

ACTION: Barney will update the benchmark for sales growth to be positive.

- Colin – is there any progress on contingency planning for healthcare expenses?
 - o Melanie – no
 - o James – payroll and benefits is up \$49K. Healthcare expenses are consistently higher than a year ago. I worry about the medical expenses.
 - o Melanie – looking at the rolling periods. The number has been going down even though it’s higher than the same period last year.
 - o Barney – we watch the benefits but it’s not controllable.
- Colin – is there a plan to move the retained patronage refunds into B shares?
 - o Melanie – It will be a large process that we need to plan for.
- Colin – how is the C-share repurchase list changed at all?
 - o Barney – it’s at \$300K+
 - o Melanie – Laurie is developing a C share repayment plan to go along with the FY20 budget. We have a year to repurchase those shares. We can include information in the Board Packet.
- Diane – has Melanie talked to the Union about reducing wages? They should accept a 2% reduction in pay.
 - o Melanie – to do something like that I have to produce three years of financial statements and we haven’t had those. Now we do have clean statements so it could be a conversation. Does the board want me to do this?
 - o James – I think this would be part of aggressive cash management. I think speaking with the Union would fit with that.
 - o Kirsten – we already had our wages cut when our hours were cut.
 - o Faye – has the Administrative Department taken a cut? Would it help to cut Administration by 2%?
 - o Melanie – as far as positions being cut, all cuts have been in Administration. Hourly cuts have been across the board. Administration is much smaller so I don’t know that further cuts would have a big impact to cash.
- Elaine – has anyone quantified the government shutdown impact on the Co-ops cash flow the last couple of months? There must have been material impact from that.
 - o Melanie – we don’t have a percent on that. It’s a consideration as far as its impact on income and people’s approach in general to spending money.
- Colin – I see we’re pretty much to our goal for labor, but sales continue to be a problem. I’d like to suggest start looking at other paradigms. How are we going to increase sales? I don’t think we can keep cutting labor, but sales need to come up to build cash.
 - o Melanie – the big stuff we’ve been talking about implementing for a while now is finally coming to fruition this week such as the hot bar in Eureka. We’ve made changes in the produce department. We are figuring out how to create an exciting experience for customers. This includes things like the new “Dinner Tonight” in Eureka where all the items for making a specific dinner are in one place at the front of the store with a recipe.
- Colin – I think we might need to shift the way we are thinking about the problem. It’s been about controlling expenses, but we can’t cut our way out of the problem. There may be options beyond what we’re already doing.

ACTION: Melanie will fix an error in payroll expense in P9.

Motion: Accept the FY19 third quarter financials as presented, barring P9 payroll expense that needs to be corrected)

Diane motioned, 2nd from Colin, motion passed (7/0/0)

~~5. FY20 budget approval~~ – reported by James

5.5 FY20 Status Update – reported by Barney

We are changing the format of the budget. I'm still waiting to get some of the information from Department Heads before it can be completed.

- James – I think we should be engaged with requesting budget scenarios such as 2% down, flat, and up 2%, and then let staff create budgets for each. The board should receive options and make a choice.
 - o Barney – do you want management to recommend a scenario?
 - o James – there should be a staff recommendation to the board. What message is that saying if we forecast a 0% net income? Who is the priority at the end of that? It's a discussion to have.
 - o Colin – I think we've had that discussion in the past. How is the budget going to be used? As a goal? As a management tool for holding people accountable? Is it an aspiration budget or bottom-line budget?
 - o Melanie – what is important is knowing the sales forecast and what the net income is expected to be. What are changeable from a legal/values perspective? I want to know what are the parameters we should be working? Does the board want us to approach the Union to reduce wages? If there is something the board expects to be in there, then we need to know. No matter what we project, minimum wage will continue to increase, healthcare continues to increase.
 - o Colin – how I would like to see the budget, given where we are financially, is a plan to become profitable and rebuild our cash reserves over the course of the next fiscal year.
 - o Kirsten – your budget is a statement of your values. It should reflect your values. We value certain things that do not come at the expense of profit.

{5 Minute Break}

6. Approve FY20 First Quarter C Share Dividend – reported by James

At the last Finance Committee meeting we raised the dividend from 2% to 2.65% for FY19 fourth quarter. CDs have recently gone up to 3% at some institutions.

- Diane – I don't think we should chase financial institutions. We have values. If you believe in the cooperative structure, then you invest here.
- Faye – 2.65% is still way better than most places.
- Colin – I think it's too early to make any changes.

Motion: Accept the FY20 first quarter C share dividend at 2.65%.
Cheri motioned, 2nd from Diane, motion passed (6/0/1) Laura opposed.

7. Approve Securities Permit Renewal

- Melanie – we renew this every year. The changes are updating the numbers of employees, updating audited financial information, updating what our revenue has been doing the last year and what we project for the next year.
- Cheri – The last remodel date shows as 1993 for the Arcata store. It was done in 2000.
- Colin – the description of B and C shares doesn't state anywhere that there are not dividends for B shares. We should specify that C shares do receive dividends on page one under descriptions.

ACTION: Laurie will make the updates and send to the March board meeting.

8. Member Comment on Reports

- James – I'd like in the benchmark area if we could define what one day of cash is. I'd like to have a sense of that number.
 - o Melanie – daily operating expenses changes quarterly.
- Danny – what is happening with getting a line of credit?
 - o Melanie – Barney has engaged the bank and how we'd be charged if we're prorated. We can't move forward until the audit is complete.
- Kurt – the Arcata roof is leaking.
 - o Melanie – the roof on the curved side has been replaced. Where the two roofs are joined there are leaks. Maintenance is working on it.
- Elaine – I went to the Eureka hot bar this week. It was during a typically slow time of the day but there were a lot of people around the hot bar and it tasted great.
 - o Ed – yesterday hot bar sales were the third highest in the last year. The only higher days were the two days prior to thanksgiving last year. It's selling a lot and it's not even at full capacity yet.

9. Set Future FC Meeting Date and Agenda Items

Next Finance Committee Meeting - Thursday, March 28, 6pm at the Arcata Community Center Arts and Crafts room.

Agenda items:

- Review FY20 budget
- Review FY18 audit

10. Meeting Adjourns

Consensus reached to adjourn the February 28, 2019 meeting at 7:48pm and move into Executive Session.

Minutes submitted by Emily Walter

**North Coast Co-op
Board of Directors Executive Session Minutes
February 28, 2019**

Present at meeting:

Board Members: Colin Fiske, Leah Stamper (Secretary), James Kloor (Treasurer), Cheri Strong, Ed Smith

Absent Board Members: Robert Donovan (Vice President)

Approved Guests: Melanie Bettenhausen

Personnel issues discussed. No reportable action taken.

Executive session ended at 8:25pm

Reported by Leah Stamper