Finance Committee Meeting Minutes
February 29, 2024
Zoom

Present at meeting
Finance Committee: Mike Connors (Treasurer), Brenda Harper (President), James Kloor (Member at Large), Chris Copple (Member at Large), George WinterSun (Secretary), Ellis Smith (Employee Director), Mimi Smith (Employee Director), Diane Sharples (Member at Large), Laura Jones (Director)
Staff: Emily Walter, Sean Nolan, Barney Doyle
Members: Kathleen Pelley

1. **Welcome**
   The meeting was started at 6:04pm by Mike.

2. **FY24 Q3 Finance Review** – reported by Barney
   This was not a good quarter financially with a Net Loss of $220,479. We had the parking lot redone in Arcata over the holidays and in November there was a power outage in Arcata which created product loss and lost sales. Also, margins were not very good, and we had two large health claims ($119k over budget for benefits). Since that time, health claims have shrunk and we are now only $23k over budget for health claims, and it's possible this will keep dropping through the end of the fiscal year. We have taken action to correct margins. Things are looking up following Q3 and I think there is a good chance that we will break even or come in positive by the end of the year.
   - Sean – as far as the parking lot and a power outage, we estimate about $150k in lost sales. Most of that is from the parking lot. A lot of the departments are meeting the margin goals and the departments that weren't meeting margin targets are being addressed to see improvements in Q4 and definitely by Q5.

Recommendation to the Board: Accept the FY24 Q3 financials. Motion by Diane, 2nd from James, motion passes (9/0/0).

3. **FY24 Audit Update** – reported by Barney
   There is a slight increase in the rate to have Wegner CPAs conduct the audit. I will be asking for some clarification questions on some items that are being added to the audit. It looks like the audit will be conducted remotely and on schedule.

4. **FY25 Draft Budget Proposal** – reported by Barney
   Since implementing a budget SOP our process has been streamlined. Sean created this process, and we continue to adjust it where we can make improvements. We based the proposed budget largely by using actual numbers from FY24, with consideration for anomalies.

   - Sean - FY25 is one week shorter than FY24. Some of the dollar differences you'll see reflect that difference. FY24 was a unique fiscal year in that it has an additional week.

   - Mike – If it was the same number of weeks would it be flat revenue year over year? Shouldn't gross sales increase with inflation adjustments? Wouldn't total gross sales increase over time?

- Barney – There is an increase based on the fact that FY25 is one week less than FY24. We generally bring in $700k in a week.
- Mike – If we sell the same number of units at a higher cost, wouldn't our revenue increase?
- James – based on having one less week, means that revenue is essentially flat year to year. If you look at the last ten quarters, we've never met the margin benchmark. The average is closer to 36.3 %. And if you're talking about increased margins then we're talking about either raising prices or finding cheaper products.
- Sean- We get to the 38.25% proposed margin by adjusting prices in a few larger departments that bring the overall margins down. I'm hoping to have solutions in place prior to the start of FY25. It's a balancing act of also paying attention to vendor price changes as well as our competitors' pricing.
- Barney – controlling cost is another way to address this. We've made some organizational changes that will reduce costs, such getting rid of the cash machines. We are looking to drop operational costs where we can, so we aren't only relying on raising prices.
- James – it's an interesting conversation because it's directly related to our member owners. It would be interesting to know if other stores have raised their prices similar to the Co-op.

- Chris – I've always thought increasing turnover is a better way of increasing cash flow versus raising prices.
  - Sean – it's a combination of things. Increased turnover, promotions and sales are all ways to improve cash flow. We've been working more with NCG to get deals and lower prices on certain items.

- James – I think it would be good to review the finances for the first couple of periods with these margin numbers to see if we're meeting them. If we aren't, then we could possibly adjust the budget. What are the levers we can pull if we aren't meeting the margin?
  - Sean – I appreciate this idea. I would be more inclined to increase the margins if we weren't meeting them, rather than lowering the budget.
  - James – The fact that there is little room for error in this budget is what concerns me.
  - Sean – I plan on doing a deep dive presentation of where the margin numbers come from. I think it will offer more understanding where these margin numbers and projects are coming from. I'd like to offer this presentation to anyone interested on the Finance Committee.
  - Diane – there is an ideological difference in the function of the budget. I believe the budget is not something you change, it's what you set. If you aren't meeting the goals, then management addresses the issues coming up, but the budget doesn't change.

- Mike – We've targeted a 1% profit margin. Is this standard?
  - Sean – The standard grocery store profit is 1-1.5%.
  - Mike – Can we increase our target profit margin to be prepared for unforeseen issues that seem to keep arising?
  - Barney – We are implementing things to reduce costs. Like getting generators installed to prevent shut down of operations. That alone will be a remarkable savings for when there are what are becoming more regular power outages.
  - Sean – I don't see increasing margins even higher as being realistic. The way to cut costs is to cut staff but that affects operations. Retaining a strong cash reserve is what protects us, along with safeguarding ourselves the best we can.

- Chris – Since the very beginning, net income has never been steady since. 1% is not unreasonable looking at the overall grocery business. What we are aiming for is consistency.

Recommendation to the Board: Accept the FY25 budget as presented to the Finance Committee at this meeting. (ATTACHMENT A)

Motion by Diane, 2nd from Chris, motion passes (8/0/1). James votes no.

5. **FY25 first Quarter C Share Dividend Rate**
   - Sean – At the last meeting I was tasked to see if the Finance Committee needs to review the dividend rate quarterly. There is nothing in our bylaws requiring this, but there is language in our Shareholders Disclosure document that states the Finance Committee will review the dividend quarterly.
   - Chris – My understanding is that we want C shares to remain steady or slightly reduced and thus we should only change the dividend rate if we are trying to change the rate of C share fluctuations.

   AGREEMENT: No change to the dividend rate.

6. **Activators for Period Financial Reviews** – reported by Mike
   This is a continued discussion from the previous Finance Committee. Does it make sense for the Board to stop reviewing Period Financials and only review Quarterly Financials? We would create defined activators that would implement Period reviews if action were needed.

   Proposed Activators:
   - Two quarters of consecutive negative sales growth against budget
   - Two quarters of MML after T&B less than 9%
   - Days of Cash on Hand less than 20

   If none of the above occurs the Board will only review Quarterly Financials. If one or more of the above occurs, then the Board would start reviewing Period Financials until nothing from the above is occurring.

   - Diane – If an activator is generated how would it be addressed? Are we just asking the management what is happening and what the strategy is to correct course?
     - Chris – These are basically liquidity activators, because the Board is still reviewing Quarterly Financials.
     - James – This offers more strategy to the Board. Here are some things that the Board should be paying attention to instead of getting muddied into monthly reports. It will hopefully create more focus for the Board.

Recommendation to the Board: Add the following to the Board Policy Manual:
The Board of Directors will only review Period Financials if one or more of the following activators occur and continue review until there are no longer occurring activators.
- Two quarters of consecutive negative sales growth against budget.
- Two quarters of MML after T&B less than 9%.
- Less than 20 Days of Cash on Hand.

Motion by Diane, 2nd from James, motion passes (9/0/0).

7. **Highlights from Columinate's Finance Training** – reported by Mike
I attended this four-session, six hours total, educational finance training. I found it helpful and would recommend it to other Board members. The training is a useful primer for those who want to improve their skills at reading financial documents.

8. **Member Comments**
   - James – I appreciate the cash and cash equivalents box. I like seeing the different accounts and what's in them. I'm looking forward to this year's audit which will reveal that we have less uninsured cash. I think we're in a much better position now.

9. **Set Future FC Meeting Date and Agenda Items**
Next Finance Committee Meeting – Thursday, May 23 at 6pm

   <u>Future Agenda Items</u>:
   - Dividend Review
   - FY24 Audit Update
   - FY24 Q3 Finance Review

10. **Meeting Adjourns**
Consensus reached to adjourn the February 29, 2024, meeting at 7:33pm.

    Minutes submitted by Emily Walter

ATTACHMENT A

North Coast Co-op Budget - Fiscal Year 2024-2025

	FY 25 Total 3/31/24-3/29/25	% of Total Revenue
Revenue (Gross Sales):	36,537,398.52	102.25%
Less Discounts:	(803,983.83)	-2.25%
Net Revenue:	35,733,414.69	100.00%
Cost of Goods Sold:	22,066,668.12	61.75%
Gross Profit:	13,666,746.57	
Gross Profit Margin:	38.25%	
Expenses		
Payroll & Benefits:	9,759,913.87	27.31%
General & Administrative:	2,008,765.18	5.62%
Occupancy:	1,631,620.55	4.57%
Total Operating Expenses:	13,400,299.59	
Net Income From Operations:	266,446.98	
Margin (From Operations):	0.75%	
Other Income & Expenses:	(86,400.00)	-0.24%
Net Expenses (Pre-Tax):	13,313,899.59	36.44%
Net Expenses + COGS (Pre-Tax):	35,380,567.71	96.83%
Profit/Loss (Pre-Tax):	352,846.98	
Profit/Loss Margin (Pre-Tax):	0.99%	
Income Taxes:	-	0.00%
Net Expenses (Post-Tax):	13,313,899.59	36.44%
Net Expenses + COGS (Post-Tax):	35,380,567.71	96.83%
Total Profit/Loss:	352,846.98	
Total Profit/Loss Margin:	0.99%	

Labor %	Taxes & Benefits %
19.75%	7.57%