Finance Committee Meeting Minutes
May 25, 2023
Zoom

Present at meeting
Finance Committee: Humnath Panta (Treasurer), Kirsten Lindquist (Vice President - Employee Director), Brenda Harper (President), Roger (Director), James Kloor (Member at Large), Diane Sharples (Member at Large), Laura Jones (Board Member), Chris Copple (Member at Large)
Staff: Emily Walter, Sean Nolan, Barney Doyle
Members: Kathleen Pelley

1. **Welcome**
   Meeting started at 6:06pm by Humnath.

2. **FY23 Q4 Finance Review** – reported by Barney
   Q4 was down only a small amount compared to budget, less than $23,000. Gross Margin went down due to the extra purchases following loss of product after the earthquake in December. The biggest issue was benefits were over more than $256,000 to budget. Healthcare costs lead to a net income deficit of $63,500. We spent just under $1.6M on healthcare for the entire year. That was $380k over budget even with receiving about $300k towards that cost. It's a strange year because we received about $2M for the Employee Retention Credit (ERC). Although expenses were higher than expected, we are still cash rich. The ERC credits will go against previous years and won't affect taxes this year.

   Mike Connors had emailed with some questions.
   - It seems that the standard "Day of Cash" has changed - why? Cash on hand has decreased while Days of cash has increased.
     - Days Cash is multi-variable determined by the formula: Total Cash / Daily Operating Expenses. And Daily Operating Expenses = Total Operating Expenses / Days in accounting period. These amounts vary every period/quarter.
   - Our Assets and Member Equity are continuing to decline and the prior quarter's Income from Operations is a loss of over $2M. Why are we optimistic that this 12+ month trend will change? Are medical expenses still the largest source of variance from budget/plan? Why has member equity decreased?
     - Assets declined because the Sutti floor expenses (asbestos and epoxy) had been first placed into the Work in Process account, part of Fixed Assets. When they were expensed, the overall Fixed assets went down. For the equity decline, members have had their shares repurchased at their request. We've never requested to repurchase shares from any member.
     - We're optimistic because all the major non-recurring expenses this last year are just that, not part of "ordinary business". The largest amounts were due to expensing the asbestos abatement and production floor epoxy repairs. We also had sales negatively affected by the renovations in the prior quarter, the losses from the earthquake/power outage, and paying the income taxes for the ERC credits was over $106,000. The second largest, unexpected cost was the health care costs, extraordinarily high last year, $380,000 over budget and almost twice the previous year.

  - Chris – on the health claims, it's not a regular occurrence, but it's also not a total outlier. It seems like every three years health care costs jump. Is there any way financially to indicate that this usually happens, but without predictability?
- James – I think we should review the benchmarks to see if we should update them. I'd like to look at updating Days Cash on Hand and Payroll & Benefits.
  - Sean – I agree. I think Gross Margins should also be adjusted, as the low end of 35% wouldn't keep us in a profitable position.
- James – Can we get a pop-out on the Balance Sheet of our reserve balances and their targets so we can track them? It would be good to see what cash has spending restrictions.
  - Barney – I will include James' suggestion in the next quarterly statements.
- Humnath – Compared to other similar companies our Gross Margin is good. Our Gross Margin looks good, and yet our income is being drained, causing a negative Net Income. We need to improve the Net Income. What is the plan to address a possible recession or if things get worse?
  - Sean – If we maintain our margin and don't have all the large financial outliers that occurred this last fiscal year, we should be solid financially. We use our budget to plan for the future and operationally what steps we can do to meet our budget.
  - Chris – If you look at Margin minus labor after tax and benefits, the goal is 12%. This is standard goal for Co-ops and in three years, we've never been close to meeting the margin goal. The margin looks good but once you add in labor, we aren't near earning the money. We never reach our Personnel with Benefits goal. We don't have Net Income because it mostly goes to labor. What Sean said is true but it's not the root of the problem. The root problem is our labor costs are way higher than standard.
  - Kirsten – Are we able to get info on other CA Co-ops of similar size for comparison of labor costs? Does NCG have these numbers available? I know we're different because we have a Union but it would be good to compare.
  - Barney – I recall seeing an NCG graph comparing similar size Co-ops. Our Co-op had very similar financials comparatively, until you get to labor and benefits, and then ours was much higher.

  ACTION: Sean will get Co-metrics data to compare our financials to other Co-ops.

  - Roger – I will ask Ukiah and Coos Bay Co-op about their labor costs. I think part of what Humnath is asking is, are we adjusting for financial impacts ahead of time? If we are planning for a renovation, is that being budgeted for? What can the board do to help the Co-op be financially strong?
  - James – For the board, the longer the runway you have the more time you have to catch and fix things along the way. This is why I recommend raising Days Cash on Hand to a higher amount. You are very compromised when you get down to 10 days Cash on Hand. There's not much you can do to make changes in a quick manner. If you see yourself going from 30 to 20 days Cash on Hand, then you need to start the conversation of what to do. What are the belt tightening routines to implement? When you must act fast you create panic. It's good to have early alert systems and procedures in place.

Recommendation to the Board: Accept the FY23 Q4 Financials as presented. Motion by Humnath, 2nd from Chris, all in favor, motion passes (7/0/1). Roger abstains.

3. **FY23 Audit Update** – reported by Barney

   The information for the audit has been submitted to the auditors. We are waiting to discuss the new implementation of our lease. We are letting them do the calculations. The main lease for Eureka will be changed into assets/liabilities instead of just being expensed. This will happen with some of our leased equipment as well.

- James – the lease thing is going to be weird and will throw the balance sheet out of whack. Can you ask them to explain this to the committee in August?

4. FY24 second quarter C share dividend
All in favor to keep the dividend as is at 2.5%.

5. Members at Large – reported by James
On the next Finance Committee agenda, have proposed terms for all three committee members that space them out.

6. Member Comments
- James – wow, what a financial position to be in to lose $1M and still have plenty cash on hand. Kudos to staff for getting us through the last three years. Especially this last year.
- Roger – I like seeing these healthy conversations between staff and the board. I think this lends well to the future.
- Chris – I'm impressed with the glossary of financial terms that were included with the packet. I would like more clarity on the use of some of the terms at the next meeting.

7. Set Future FC Meeting Date and Agenda Items
Next Quarterly Finance Committee Mtg. – Thursday, August 24 at 6pm

Future Agenda Items:
- Quarterly Financials
- Members at Large Terms
- Review Benchmarks
- Review Finance Language concerning Labor & Personnel w/ benefits
- Audit Review

8. Meeting Adjourns
Consensus reached to adjourn the May 25, 2023, meeting at 7:10pm.

Minutes submitted by Emily Walter