May Finance Meeting Recap – submitted by James Kloor, Board Treasurer

The Finance Committee met on May 30 to discuss the Fiscal Year 2019 (FY19) Fourth Quarter Financials (Q4), reviewed a more detailed FY20 budget, and received an update regarding the FY19 Audit.

In terms of the Fourth Quarter Financials (January-March)– we posted a profit, of roughly $30,000. With Quarter 3 eking out a profit as well ($9,000) – that puts us at two quarters of positive net income – a much better scenario than the three quarters prior (with net losses of 393K, 196K, & 542K). Those numbers are alarming – and we need to remember them. At the beginning of Q3 is when Staff & Management dug in deep to figure out what we could do to stave off losses – and it's evident that all their work amounted to huge progress. Just looking at Q4 last year vs Q4 this year – that's a nearly $575,000 swing. So, when folks say we can't move the needle, or we're not doing enough – I'd point them to that number.

The board/Finance Committee pushed management to come up with scenarios that aggressively built up cash over the coming Fiscal Year – and initial numbers looked good. With more staff input it became apparent that the scenario the board approved just wasn't realistic. Controller Barney Doyle came back to this Finance Committee meeting with the staff-improved budget scenario – which painted a much different picture. Net income for the year is projected at just $22,000 vs. the nearly $500,000 the Board was hoping we could net to rebuild our cash reserves.

The motion put forth by the Finance Committee was *to recommend to the Board to accept the updated detailed budget presented at the 5/30 Finance Committee meeting with the caveat that an attempt be made to bring the budget back into alignment with the benchmarks previously set by the board.* With that in mind – what are the benchmarks you may ask – here's a snapshot:

Benchmark	North Coast Co-op	National Co-op Grocers	Co-op FY19 Q4 Budget	Co-op FY19 Q4 Actual
Sales Growth (over prior year)	>0	4- 10%	+8.6%	+8.9%
Gross Margin	35-38%	35-38%	36.0%	38.6%
Personnel, including benefits	22-26%	22-26%	26.0%	27.7%
MML after T&B (Margin Minus Labor after Taxes & Benefits)	>15%	>15%		10.5%
Net Income	1-2%	1-2%	.4%	.3%
EBITDAP (Earnings Before Income Taxes Depreciation Amortization and Pension Income)	4-6%	4-6%		
Days Cash on Hand (Cash on hand/**D**aily **O**perating **E**xpenses) DOE = COGS + Total Operating Expenses – Dep'n/Amort Costs/# Days ($1,912,147 + $1,165,867 - $65,538)/35 = $86,071 $435,649/$86,071 = 5.1	10-25	10-25		5.1
Inventory Days	20-25	20-25		25.7
Inventory Turnover				14.5
Current Ratio	>1.5:1	>1.5:1		1.0
Debt to equity	<3:1	<3:1		.6
Days Payable Outstanding	25			18.8

The projected, realistic budget assumes 1% down (year over year) – so if we can remain flat to last year or do better – we'll be increasing our cash reserves. We have an opportunity to improve our margin, bring down the percentage personnel makes up of the overall budget (by increasing sales the percentage goes down, and/or by making some difficult choices regarding benefits, etc.), or by possibly reducing member discounts/other promotional sales. The realistic, detailed budget scenario is going to force us to make some difficult decisions. Doing nothing, or keeping the status quo as outlined in the budget, will leave us in the same precarious cash liquidity situation we've been in for the last year – and I don't believe the Board intends to do that.

I'll be frank – I don't like the realistic budget that has been presented – it isn't setting the Co-op up for success/longevity. That must change – and to make that change we're going to have to work together and come up with solutions that work for all of us. I'm thankful we have a Union, whom we can work with to solve this. I'm thankful for the membership, who will support us through these changes. And I'm thankful for the staff, who make the Co-op the only grocery store I want to shop at.

Please join us for further discussion of the budget at our board meeting on Thursday, June 6 at 6 pm at the Humboldt Bay Aquatic Center in Eureka.

If you have any questions regarding the Finance Committee, please email me at jameskloor.board@northcoast.coop.

Sincerely,

James Kloor
Board Treasurer