MOSCOW FOOD CO-OP
General Manager Monitoring Report

General Manager's Monitoring Report – December 1, 2016 for Q3 2016 financials
Policy Type: **Executive Limitations** Policy Title: B1 – Financial Condition and Activities
I report compliance with all parts of this policy.
Melinda C. Schab, GM Moscow Food Co-op

Policy Language
With respect to the actual, ongoing financial conditions and activities, the General Manager must not cause or allow the Cooperative to be unprepared for future opportunities, the development of fiscal jeopardy, or key operational indicators to be below average for our industry.

Operational Definition/Interpretation:
This policy empowers and authorizes the General Manager to manage the financial affairs of the co-operative in working towards the achievement of the Co-op's Ends. The policy requires the General Manager to accomplish these Ends while diligently exercising fiscal responsibility. Fiscal responsibility has been clearly defined by the Board in the sub-policies below.

Data: Compliance with the primary points of all the sub-policies will demonstrate compliance.
I report compliance with the top level policy.

Policy Language
The GM must not:

B1.1 Allow sales growth to be inadequate.

Interpretation and Operational Definition:
This sub-policy requires the General Manager to ensure that sales growth is adequate to meet the needs of the business and the long-term goals of the organization. We compare sales against the same period of the previous year. In the case of sales decline or stagnancy, the General Manager will provide information on all the possible causes and any proposed solutions. Furthermore, the General Manager will work with management to develop and implement an action plan in order to course correct.

Sales growth is a key measure of the health of our business. 3% is the minimum growth required by NCG for compliance. We budgeted a sales increase in FY2016 of 4% over FY2015.

Sales Growth—When measuring quarterly sales, this measure compares sales against the same quarter of the previous year using this formula:

- (sales from this period – sales from the equivalent period last year)/(sales from the equivalent period last year)

Data:

- Q3 2016 sales were up 6.0% over Q3 2015 sales. All income-generating departments continue to grow sales with the exception of Produce which was down 1.5% over Q3 2015 and is down 3.2% YTD.

- We engaged the NCG for some assistance in Produce. William Deal was onsite for 3 days in October to work with Produce staff on work flow, processes, labor, and merchandising. He recommended investing in new displays for the department.
- A comparison of the 12-month rolling average shows an increase of 5.8%. This data comes to us in our quarterly financial reports from Cometrics (CoCoFiSt).

Data supports compliance.

Policy Language
B1.2 Allow operations to generate an inadequate net income.

Interpretation and Operational Definition:
This sub-policy directs the General Manager to further inform the Board sales do not generate adequate net income to finance operating expenses. There is the possibility that sales may not cover operating expenses even if the Co-op experiences positive sales growth. Adequate net income is defined here as enough income to cover operating expenses.

Net Income is calculated by dividing the income statement total by net sales. The NCG requires 0.5% for compliance.

EBITDAP (Earnings Before Interest, Taxes, Depreciation/Amortization and Patronage) measures the core earnings of the business, regardless of debt, tax levies, depreciation/amortization, and patronage rebates. Co-ops that pay a patronage rebate will show less net income, so EBITDAP is an important profitability measure. The NCG requires 1.50% for compliance. EBITDAP is expressed as a % of sales. For expansion purposes, the Development Co-op wants to see an EBITDAP above 4%.

Data:

- YTD Net income is increasing as both a % of sales and as an absolute $.
  - 2015 Q1-Q3 = 6.3% and $169,328.00
  - 2016 Q1-Q3 = 8.2% and $236,156.00
- YTD EBITDAP is also increasing.
  - 2015 Q1-Q3 average = 3.8%
  - 2016 Q1-Q3 average = 4.0%

Data supports compliance.

Policy Language
B1.3 Allow liquidity (the ability to meet cash needs in a timely and efficient fashion) to be insufficient.

Interpretation and Operational Definition:
This sub-policy requires the General Manager to keep the Board informed of the Co-op's relative liquidity and it's ability to meet cash needs. Liquidity can be measured in two useful ways: **Quick Ratio** (cash assets in relation to the claims upon them) and **Current Ratio** (non-cash assets in relation to the claims upon them). The Co-op's **Net Income** (addressed above) is the best measure of our ability to meet cash needs. However, **Days of Cash** and **Cash on Hand** are also important metrics to watch.

Current Ratio (current assets/current liabilities) measures short-tem debt-paying ability. At a minimum, current ratio should exceed 1.0. The NCG requires a current ratio above 1.25 for compliance. The Moscow Food Co-op's long-term goal is 3.22

Quick Ratio (current assets – inventory/current liabilities) measures short-term debt-paying ability, as well. The NCG requires a quick ratio above 0.7 for compliance. The Moscow Food Co-op's long-term goal is 1.88.

Days of Cash are calculated by taking the cash on hand and dividing that by the average daily amount of COGS (cost of goods sold)+cash operating expenses + interest expense + taxes. This formula assumes 91 days-per-quarter. The NCG requires a minimum of 10 days of cash for compliance.

Cash on hand – how much money the Co-op has in savings. Cash is especially important during quarters when net income is insufficient to cover operating expenses, such as in Q4 2015. Looking at a couple of years of data, we see that about every fiscal year the Co-op has one quarter with a negative net income.

Data:

- As we pay down our long-term debt, both our CR and our QR increase.
- Both our Cash on Hand and our Days of Cash increased in Q3 2016.

Data supports compliance.

Policy Language
B1.4 Allow solvency (the relationship of debt to equity) to be insufficient.

Interpretation and Operational Definition:
This sub-policy directs the General Manager to maintain the appropriate balance of debt to equity so that the needs of the business are met.

Debt to Equity (debt/equity) compares how much of the business was financed through debt and how much through equity (cash).

A higher debt-equity ratio generally means that a company has been aggressive in financing its own growth with debt. Too little debt may mean that we are not realizing the full potential of our business and may actually hurt our overall profitability.

Data:

- The Moscow Food Co-op's long-term goal is 1. Currently, the Co-op does not have enough debt to meet this target. However, we will likely take on more debt to finance new equipment as part of our remodel work with the Development Co-op.

Data supports compliance.

Policy Language
B1.5 Allow growth in ownership and owner paid-in-equity to be insufficient.

Interpretation and Operational Definition:
This sub-policy requires that the General Manager work to increase cooperative ownership and to ensure that invested owner equity dollars are sufficient enough to pay for some capital equipment expenditures.

Data:

- New ownership accounts continue to grow, although growth has slowed a bit. The opportunity to offer new ownerships to students from the Co-op on Campus location should help us boost this growth.
- Total ownerships also continue to grow. Our goal for 2016 was to exceed 8000 total ownerships.

- Paid-in-equity also continues to grow. This number includes new and renewing owners. Owner Equity Dollars are calculated as they are paid in through the POS system. Currently there is neither a board-established target nor an NCG-established target for this.

Data supports compliance.

Policy Language
B1.6 Default on any terms that are part of the Cooperative's loans.

Interpretation and Operational Definition:
This sub-policy requires the General Manager to confirm that the Cooperative has not defaulted on the terms of any loans, and that all loan payments are current.

Data:

- The Cooperative currently has one business loan. To date, we have not defaulted on the terms of the loan and payments have been made on time.

Data supports compliance.

Policy Language
B1.7 Allow late payment of contracts, payroll, loans or other financial obligations.

Interpretation and Operational Definition:
This sub-policy requires the General Manager to confirm that payments of any contracts, payroll, and other payables are met in a timely fashion. The General Manager will provide the Board with a report in the event that the Co-op is unable to meet any financial obligation.
Data:

- All financial obligations have been met in a timely fashion.

Data supports compliance.

Policy Language
B1.8 Incur debt other than trade payables or other reasonable and customary liabilities incurred in the ordinary course of doing business.

Interpretation and Operational Definition:
This sub-policy prohibits the General Manager from incurring any debts for the Cooperative other than payables, payroll, and other reasonable liabilities encountered in the regular operation of the business. Should the General Manager believe incurring debt is necessary to the health of the organization, a proposal would be made to the Board of Directors.

Data:
- We have not incurred any new debts.

Data supports compliance.

Policy Language
B1.9 Acquire, encumber or dispose of real estate.

Interpretation and Operational Definition:
This sub-policy explicitly states that the General Manager is not authorized to enter into any agreements regarding real estate without explicit Board approval. This includes renting and purchasing buildings or property. Approval for such authorization would be requested and approved in Executive Session.
Data:
- Nothing to report.

Data supports compliance.

Policy Language
B1.10 Allow tax payments or other government-ordered payments or filings to be overdue or inaccurately filed.

Interpretation and Operational Definition:
This sub-policy directs the General Manager to ensure that the Moscow Food Co-op pays taxes and other government payments/filings accurately and in a timely fashion.

Data:
- According to internal Moscow Food Co-op procedures, and in compliance with various taxing authorities, all Moscow Food Co-op taxes have been paid in a timely manner.

Data supports compliance.

Policy Language
B1.11 Use restricted funds for any purpose other than that required by the restriction.

Interpretation and Operational Definition:
This sub-policy further directs the General Manager to solicit express consent from the Board before using any restricted funds for purposes other than the intended use. Restricted funds would be those that have been set aside for an intended purpose.

Data:

- Moscow Food Co-op savings have not been further earmarked or restricted.

Data supports compliance.

Policy Language
B1.12 Allow financial record keeping sysems to be inadequate or out of conformity with Generally Accepted Accounting Principles (GAAP).

Interpretation and Operational Definition:
This sub-policy requires the General Manager to ensure that the Co-op's financial systems conform to GAAP. Regular appraisal of our accounting practices is provided by the Co-op's tax accountant. The Finance Manager also regularly utilizes the network of other NCG Finance Managers. Beginning in January 2017, the NCG will require an annual financial review.

Data:

- We contracted with Wegner CPAs to perform a Financial Review of our 2015 financials. This work is complete and the final letter/statements are attached.
- We've also contracted with Wegner CPAs to perform a complete Financial Audit of FY 2016. This work began last January with inventory and will be complete in early 2018.

Data supports compliance.