February 22, 2020
Policy Type B2 – Business Planning and Financial Budgeting, last revised: June 14, 2016
I report compliance with all parts of this policy.
Unless indicated otherwise, this data is accurate as of February 22, 2020
I certify that the information contained in this report and any attachments is true

General Manager

Addenda & Attachments

- FY2020 Budget Summary
- Disclosure of planning assumptions
- GL Expense Categories Cheat Sheet
- Work Plans FY2020
- QB FY2020 Budget Overview

Policy Language

The General Manager must not operate without annual budgets and multi-year plans that address intentional and incremental progress towards Ends accomplishment along with avoidance of fiscal jeopardy.

Interpretation

Financial planning is essential to avoid financial jeopardy. The Moscow Food Co-op will have in place a multi-year plan containing, as a component, a financial plan crafted to ensure the fiscal success of the Co-op. The plan also addresses the desired results in a larger context, including the social and environmental goals with the appropriate planned activities, so as to reasonably comply with the limitation policies while pursuing the desired results inspired by the Ends policies.

Operational Definitions

- The Co-op will operate with a multi-year plan updated for each fiscal year
- The plan will be aligned to the board-stated Ends policies
- In B2.1a, the Board has defined "fiscal jeopardy" as those conditions that do not meet the criteria set in the Financial Conditions (B1) policy. The budget included as part of our annual planning will be designed to meet or exceed those criteria

Data

- The Work Plans for FY2020 is included with this month's board packet. The plan details the connection between Ends Policies and the work we're prioritizing
- Within the operating plan, pages 13-18 describe the connection between the Ends policies and the operational plans
- See B2.1a below for data about fiscal jeopardy

GM Note:
The attached Work Plans are a summary and distillation of all research and inputs. For prudence and confidentiality, the financial worksheets in the plan are condensed statements.

The GM respectfully reminds the Board that this is an operational document and is not presented for Board ratification.

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:

B2.1 Create plans or budgets that

a. *Risk incurring those situations or conditions described as unacceptable in the Board policy "Financial Condition and Activities."*

Interpretation
In executive limitation terminology, the Work Plans are designed to guide the Co-op financially and set goals and procedures in place that avoid the unacceptable conditions as set forth in the B1 – Financial Condition and Activities policy. In terms of planning, the essential criteria are those that require sufficient **sales**, **net income**, **debt to equity** and **cash reserves**. The GM has provided the Board the Operational Definitions for these criteria in the B1 report dated March 2020.

Operational Definition
Each budget for the Co-op will show planned financial conditions within the limits defined in policy B, with the exception of Net Income predictions.

Data

Policy	Financial Condition	FY 2020 Budget Projection	
B1.1	Sales growth >3%	Sales growth =	3.30%
B1.2	Net Income > 0.5%	Net Income =	-0.10%
B1.4	Debt to Equity < 1	Debt to Equity =	57
B1.11	Cash Reserves > 10 days	Cash Reserves =	20.48

Plan to improve Net Income

- **Margin recovery** – this is of primary importance and is addressed in the 2020 Work Plan
- **Labor controls** – managing department labor to projected sales and to budget is critical for cost controls. This is addressed in the 2020 Work Plan
- **Expense reductions** – Marketing is already undertaking an advertising audit to determine ROI. We're looking for opportunities to reduce expenses

Data supports non-compliance.

B2.1 Create plans or budgets that

b. Omit credible projection of revenues and expenses, owner investment and return, separation of capital and operational items, cash flow, and disclosure of planning assumptions.

Interpretation

The GM will plan for the success of the Co-op, both in the short term and the long term by beginning with a realistic forecast of sales. Over the last several years using historical data, trend analysis, peer comparisons, and expert guidance (Bakehouse projections provided by NCG).

With projected revenue in place, expenses are proportionally allocated. This year, net revenue is projected to reflect a negative cash flow – while we could have manipulated our projections to achieve a positive net income, we've decided to leave budget projections as they are. We have a plan in place to further reduce expenses, which should result in a positive net income for 2020. It is important to note that we've just completed our third major project (Center Store Remodel, Campus Store, Bakehouse) and it may take us a year to stabilize our operations.

A capital budget is prepared to both replace equipment and to support strategic initiatives. Assumptions on revenue, cost and capital purchases are carefully examined and reviewed using historical data and current trend analysis.

Operational Definition

- Projection of revenues (sales), expenses, and owner investment equity are based on historical data, in-depth trend analysis, peer co-op performance, and expert pro forma budget information provided by the Development Co-op
- We don't specifically make projections of patronage dividends, but we strive for a positive net income – from which a patronage dividend is derived
- A capital budget is prepared separately from the operational budget
- Cash flow projections are clearly shown
- Assumptions we make in creating the operating plan and annual budgets will be clearly stated in writing in the plan
- I test the overall credibility and reasonableness of the plan, including the embedded projections and assumptions, by having the plan reviewed internally by senior

management and externally by other knowledgeable professionals when appropriate

Data

- The trend analysis summary is found in the body of the Work Plan and sales and income projections are shown on the pro forma income statement. All historical data are stored separately
- The pro-forma budget shows that we plan for a net income before patronage dividends of -$12,218
- A separate capital budget was prepared for FY2020
- Cash flow projections for FY 2020 indicate negative cash flow. Projections were derived based on the positive net cash provided from operating activities and the cash required for investing and financing activities
- Assumptions to the financials are included in supporting documentation
- Senior Management has reviewed the budget. It has also been partially shared with peer GMs of other NCG Co-ops and with NCG staff

Data supports compliance.

B2.1 Create plans or budgets that

c. Do not address excellence in business systems and operations.

Interpretation

Business and operating plans for the Moscow Food Co-op must address excellence in business systems and operations.

Operational Definition

Several Critical Issues have been identified that address necessary improvements in our business systems and operations:

1. Margin, Labor, and Sales Growth
2. Development of excellent systems to support achievement of margin, labor, and sales growth budgets
3. Cleanliness
4. Customer Service
5. Sustainability

Data

- All critical issues are addressed in the Work Plan:

Critical Issues	pages
Margin, Labor, Sales Growth	5-8
System creation	5-8
Cleanliness	5-8
Customer Service	4, 5-8
Sustainability	3, 5-8

Data supports compliance.

B2.1 Create plans or budgets that

d. Have not been tested for feasibility.

Interpretation

This policy provision applies to major projects: expansions, relocations, or other plans that require substantial debt. In *The Expansion Toolbox,* Bill Gessner outlines five ways to assess the feasibility of a major project: market feasibility, internal readiness, financial feasibility, design feasibility, and risk assessment. The Co-op will not undertake any major project unless we have assessed feasibility in this way.

Operational Definition

Feasibility analysis for any major project will satisfactorily answer the following questions:

- Financial and Capital analysis
  - Can we raise the money?
  - What are the financial projections, ability to repay debt, return on investment, etc.?
- Market analysis
  - What are the sales projections?
  - What is possible in our trade area?
  - Are we thinking too big or too small?
- Organizational Capacity
  - Do we have the capacity (leadership, governance, management, staff, systems, alignment, owner engagement, commitment) to handle this project?
- Design
  - Can the facility be operated efficiently as a store? Will products, work and customers be able to flow effectively?
- Worst case scenario/contingency planning
  - What could go wrong and are we prepared?
  - Do we have sufficient cash to weather disruptions of a variety of types?
  - Are the contingency funds and working capital sufficient?

Data

- There are currently no definitive expansion projects on the horizon.

Data supports compliance.

B2.2 Provide less for Board activities during the year than is set forth in the board budget.

Interpretation

I interpret this to mean that the Annual Budget contains adequate funds for governance as called for by the Board.

Operational Definition

The Board's budget is included in the Operating Plan. If the Board fails to submit a budget, the General Manager and the Finance Manager create one based on the previous year's expenses.

Data

The FY 2020 budget plans for Cost of Governance showing $22,808. This budget was submitted to the Co-op's Finance Manager by the Board's co-Treasurers. No changes were made.

Data supports compliance.

Addendum A – FY2020 Budget Summary

	2017	2018	2019	2020 Budget
Total Sales	$11,112,321	$11,372,645	$11,521,357	$11,902,979
Downtown Sales		$11,229,099	$11,362,838	$11,739,713
Campus Sales		$143,546	$158,519	$163,267
Cost of Goods	$6,447,410	$6,584,539	$6,718,187	$6,784,098
Gross Margin	42.0%	42.1%	41.7%	43.0%
Personnel Expenses	$3,155,059	$3,320,842	$3,117,003	$3,167,054
	28.4%	29.2%	27.1%	26.6%
Occupancy Expenses	$395,441	$417,052	$443,889	$452,197
	3.6%	3.7%	3.9%	3.8%
Administrative Expenses	$351,470	$399,233	$476,528	$642,424
	3.2%	3.5%	4.1%	5.4%
Marketing & Outreach Expenses	$351,917	$351,926	$413,916	$398,651
	3.2%	3.1%	3.6%	3.3%
Operations Expenses	$420,275	$416,922	$1,285,024	$1,463,205
	3.8%	3.7%	11.2%	12.3%
Governance Expenses	$36,289	$35,636	$27,959	$22,808
	0.3%	0.3%	0.2%	0.2%
Other Income	$65,005	$49,128	$50,135	$4,164
	0.6%	0.4%	0.4%	0.0%
Net Income	$19,466	-$104,377	-$20,470	-$12,218
	0.20%	-0.90%	-0.20%	-0.10%

Addendum B – Disclosure of Planning Assumptions

1. Net Sales
    a. We use CoMetrics tools to help construct annual budgets. This allows us to compare our Co-op's performance in key areas to 19 other co-ops in our size range across the nation
    b. We use data from the past several years, peer performance, national and regional trends, knowledge of the current competitive landscape and we predict what kind of sales growth we will see in each of our sub-departments (Ex. Wellness sub-departments are Body Care, Mercantile, Supplements, Logo, and Publications). These sub-department predictions are then weighted based on their percentage of the total sales for the department. This then gives us the final number for department growth. Store growth uses the same process – weighing all the department predictions based on their % of total store sales
2. Expenses
    a. Fixed expenses – we know in advance what these cost us each month
        i. Rent, campus rent, Bakehouse rent
        ii. Insurance
        iii. Interest expense
        iv. Janitorial services costs
        v. Telephone, campus telephone, Bakehouse telephone
        vi. Property taxes
        vii. Bank service fees
        viii. Workers' Compensation insurance premiums
        ix. Health insurance premiums
        x. Repairs and maintenance costs (which is less predictable)
    b. Expenses calculated as a % of Net Sales (because over time, they've been stable as a % of net sales)
        i. Co-op Item Discounts
        ii. Labor
        iii. Merchant services (credit card processing)
        iv. Participating Owner discounts
        v. Cost of Goods Sold
        vi. Access discounts
    c. Expenses calculated as a % of Gross Wages
        i. Staff discounts
        ii. 401k matching contributions
        iii. Payroll taxes
    d. Expenses estimated based on our research of actual costs
        i. Staff education
        ii. Travel
        iii. Trainings
    e. Expenses estimated backwards – *How much can we afford to give back to the community through Outreach? Education? Community Contributions? How much can we afford to spend on Advertising?* – For these types of expenses we use historical data to set a budget
        i. IT begins the year with an estimate for the projects we need to tackle
        ii. Governance begins the year with an estimate based on previous years' expenses

Addendum C – GL Expense Category Cheat Sheet

60000 – Personnel Expenses

- Wages & Salaries
- Payroll taxes
- Workers Comp premiums
- 401k contributions
- 401k expenses (required audits, administrative fees)
- Health insurance premiums
- HRA expenses
- Accrued PTO
- Hiring costs
- Staff discounts
- Staff meetings & trainings
- Staff recognition (Co-op Bucks)
- Staff other (soup for the break room)

71000 – Occupancy Expenses

- Property taxes
- Janitorial services and supplies
- Rent
- Repairs and maintenance
- Utilities

72000 – Operations Expenses

- Administrative Expenses
    - Bad debt (returned checks)
    - Bank service charges
    - Credit card processing fees
    - Cash over/short
    - Depreciation expense
    - Insurance (EPLI, Umbrella)
    - Interest expense
    - Travel
    - Meals (when traveling)
- Marketing & Outreach
    - Community Support (Dime in Time, CCF, community donations, event sponsorships)
    - Advertising
    - Publications expenses (Rooted, e-news)
    - Owner Engagement expenses (OW raffles, new owner packets, owner cards)
    - Education & Events (classroom rentals, book club expenses, Mamas & Papas expenses, Co-op Kids expenses, Film Series, Co-op Explorers, etc.)
    - Promotions (demos, sampling, FED expenses, etc.)
    - Miscellaneous

    - Access discounts (Senior, Student, FLOWER)
    - PO discounts
    - Owners Week discounts
    - Merchandising (sign holders)
- Store Operations
    - Packaging (for to-go food)
    - Dues, fees, subscriptions, licenses (Chamber of Commerce, NCG, Daily News, Mystery Shopper Program, Dept. of Ag scale licenses, etc.)
    - Equipment rental (forklift for the giant pumpkin)
    - IT Expenses (licenses, support contracts, equipment)
    - Miscellaneous (unredeemable coupons, thank-yous to trainers and vendors, conference swag)
    - Professional Services (EOS expenses, legal fees, PCEI for composting, department consultation fees, CPAs)
    - Uniforms (Shoes for Crews, aprons)
    - Supplies (register tape, shopping bags, linens & mats, business cards, disposable gloves, produce bags, cleaning supplies, etc.)
    - Office supplies & postage
    - Small tools/equipment/fixtures (shopping cards, blenders, desk chairs, etc.)
    - Taxes (use taxes)

72600 – Governance Expenses

- Annual meeting & report
- Consulting (CDS Consultant, legal)
- Directors and Officers insurance
- Elections/Voting
- General BOD Expenses (things that don't fit anywhere else)
- Retreats
- Trainings