May 23, 2023

Policy B1 – Financial Condition & Activities, last revised: May 3, 2021
I report compliance with all parts of this policy unless otherwise noted below.
Unless indicated otherwise, this data is accurate as of May 23, 2023
I certify that the information contained in this report and any attachments is true.

MCSchab
General Manager

Attachments:

1. Q1 2023 P & L
2. Q1 2023 Cash Flow
3. Q1 2023 Balance Sheet
4. Q1 2023 Budget vs. Actual

Policy Language

With respect to the actual, ongoing financial conditions and activities, the GM 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.

Interpretation & Operational Definition:

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

Per our operating agreements with National Co-op Grocers, some financial key indicators have targets/minimums that are established by NCG. We aim for those targets.

- ❖ All financial data used in this report comes from the CoMetrics database which calculates our performance on a twelve-month rolling average. Therefore, some of the numbers will not match-up exactly to what is in our own Quickbooks (QB) database & documents.

Data: Compliance with the primary points of all the sub-policies will demonstrate compliance.

Policy Language
The GM must not:

B1.1 Allow sales growth to be inadequate relative to market conditions.

Interpretation & Operational Definition:
The General Manager must ensure that sales growth is adequate to meet the needs of the business and the long-term goals of the organization. Business expenses increase over time as wages increase, the cost of benefits increases, rent and utilities expenses increase, and cost of good increases.

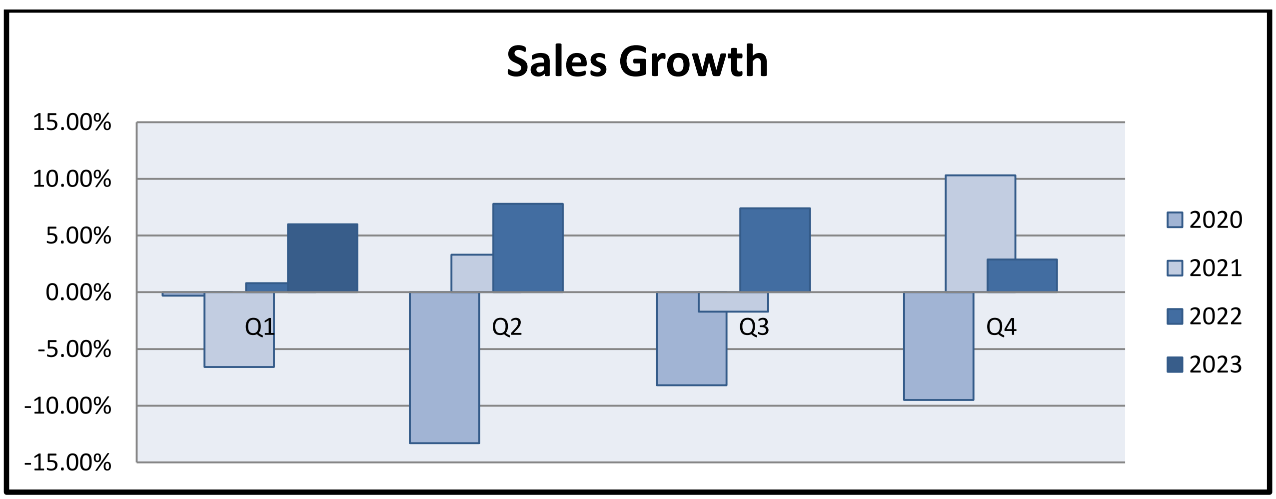
We compare sales against the same period of the previous year. In the case of sales decline or stagnancy, the General Manager will provide information on the context of that decline, information on all the possible causes, and any proposed remedies. Furthermore, the General Manager will work with management to develop and implement an action plan in order to course correct.

Sales Growth

Formula: (sales from this period – sales from the equivalent period last year)/ (sales from the equivalent period last year)
Definition: When measuring quarterly sales, this measure will compare to the same quarter of the previous year. When comparing annual sales, it will use the current and previous year performance.
Analysis: Sales growth is a key measure of health in a business. **The minimum growth required by NCG for compliance is 3%**

Data:

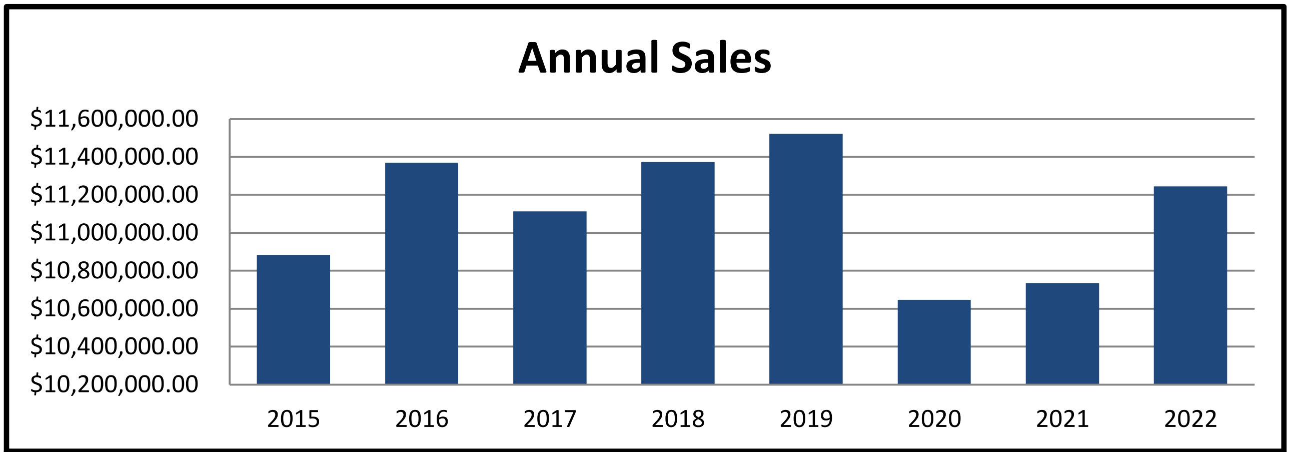
- We experienced terrific sales growth in Q1, posting **Sales Growth of 6.0%** compared to Q1 2022, thus we are **in compliance** with NCG's requirement.

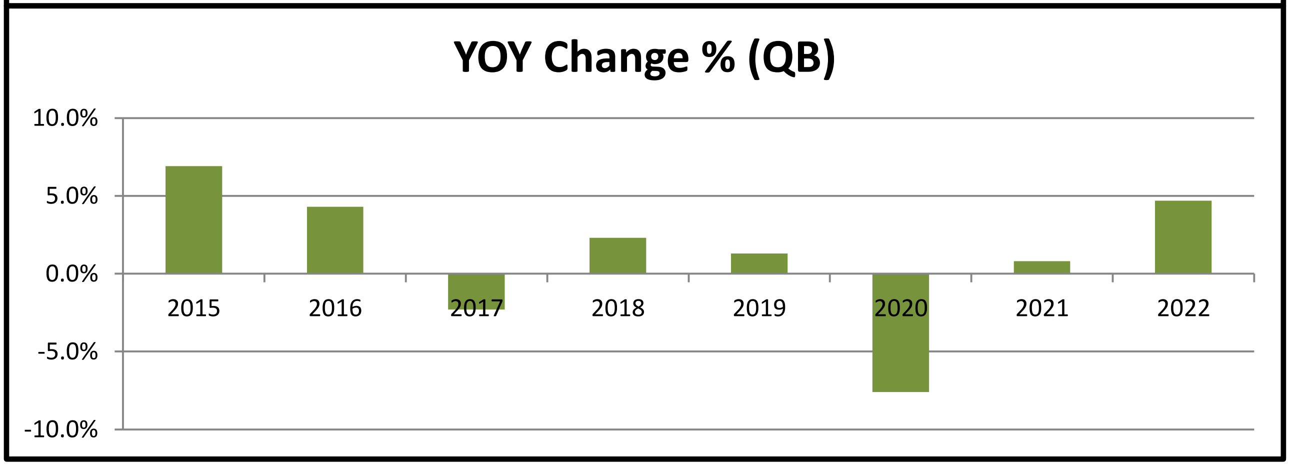


- This table shows our performance compared to the "typical" performance for our peer co-ops both across the nation and just in the west. You can see that our sales grew significantly more than most of our peers.

	Moscow Food Co-op	National	Corridor
Sales Growth	6.0%	2.3%	0.9%

- For reference, total annual sales and YOY growth are reported below





Data supports compliance on sub-policy B1.1.

Policy Language

B1.2 Allow operations to generate an inadequate net income

Interpretation & Operational Definition:

This sub-policy directs the General Manager to inform the Board if 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 %

Formula: (income statement total) / (net sales)
Definition: Measures income generated by each dollar of sale. This ratio includes other income, other expenses, and taxes.
Analysis: A low net income could indicate (among other things) low sales compared to fixed expenses, low gross profit dollars, and/or high variable expenses such as a portion of your personnel expense. To assess a co-op's finances, you will want to consider whether the net income is increasing or decreasing. **NCG requires 0.5% for compliance.**
*Note: patronage dividends may affect this ratio.

EBITDAP (Earnings Before Interest, Taxes, Depreciation, Amortization, and Patronage)

Formula: Net income before interest expenses, federal, state, county, and city income taxes, depreciation, amortization, and patronage rebates.
Definition: Measures the core earnings of a business, regardless of debt, tax levies, depreciation/amortization, and patronage rebates. EBITDAP is essentially net income with interest, taxes, depreciation, amortization and patronage added back to it. This ratio can be used to analyze and compare profitability between co-ops by eliminating the effects of financing and accounting decisions.
Analysis: Allows you to make better comparisons with peer co-ops, regardless of the amount of loans, taxes, depreciation, and patronage rebates. Consumer and worker co-ops that pay a patronage dividend will show less net income, so EBITDAP is an important profitability measure. **NCG requires 1.50% for compliance**.

Margin Minus Labor (MML)

Formula: (gross profit/gross income) – (gross personnel/gross income)
**Gross Personnel is wages plus benefits plus taxes
Definition: The percent of revenue available to pay all other expenses, after paying for the cost of goods and gross wages.
Analysis: In addition to being a good profitability indicator, this ratio is also useful for comparing companies that have different product mixes. It is a better comparison than either margin or personnel expense alone.

Prior to opening a full-sized second location, we need to achieve a stable MML of 14% or higher.

Data:

- Q1 2023 **net income** = -2.9% thus we are **out of compliance** with NCG requirements.
    - Net income was out of compliance with NCG requirements because beginning late last year we invested in prepared foods labor in order to help facilitate faster sales recovery. Here's a summary of what happened and the improvements that have been made:

	January	February	March	April
PF Labor as a % of sales	44.9%	44.7%	43.2%	38.6%
PF Labor budget %	34.1%	34.1%	34.1%	34.1%
Lost labor dollars Q1			**$46,585.49**	
Bakehouse Labor as a % of sales	63.8%	54.5%	50.9%	43.2%
Bakehouse Labor budget %	35.2%	35.2%	35.2%	35.2%
Lost labor dollars Q1			**$37,474.04**	
Organization Achieved Margin	41.8%	41.9%	42.3%	42.7%
Budgeted Margin	42.8%	42.8%	42.8%	42.8%
Lost margin dollars	$9,166.45	$7,201.61	$3,720.28	
Total lost margin dollars Q1			**$20,038.34**	
		Total lost dollars	**$104,097.87**	

Other steps currently being taken at the Bakehouse

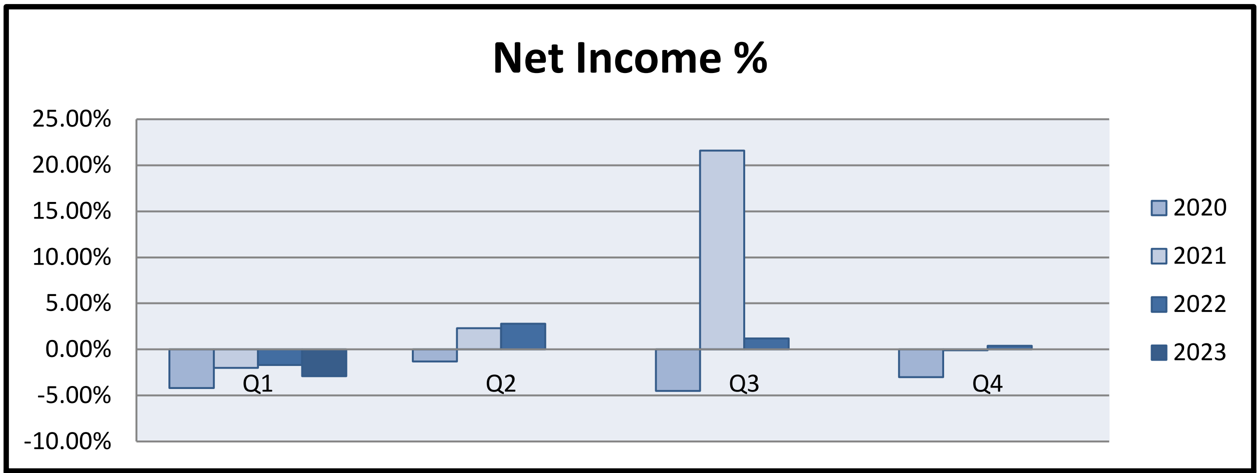
- ✓ Streamlining daily processes to ensure better efficiency through utilizing lean strategies
- ✓ Update pricing more regularly to keep on top of cost changes
- ✓ Developing new recipes to keep selection fresh and exciting and to draw return trips
- ✓ Working closely with Marketing for weekly promotions and highlights
- ✓ Goal: grow sales to $20,000/week
- ✓ Creating an annual pastry and bread production plan that includes a rolling 10-week plan for products and promotions to ensure adequate planning for holidays, big eating events, the return of students, etc.
- ✓ Continuing reducing labor hours. Q1 averaged 497 hours per week. Q2 is averaging 417 per week.

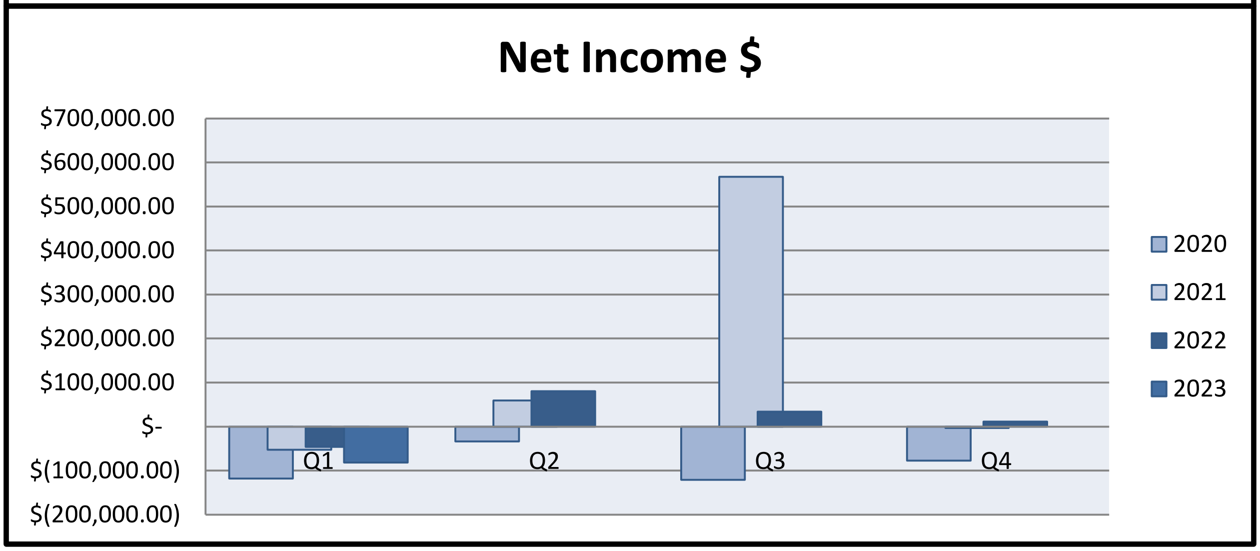
Other steps currently being taken in the Kitchen/Deli

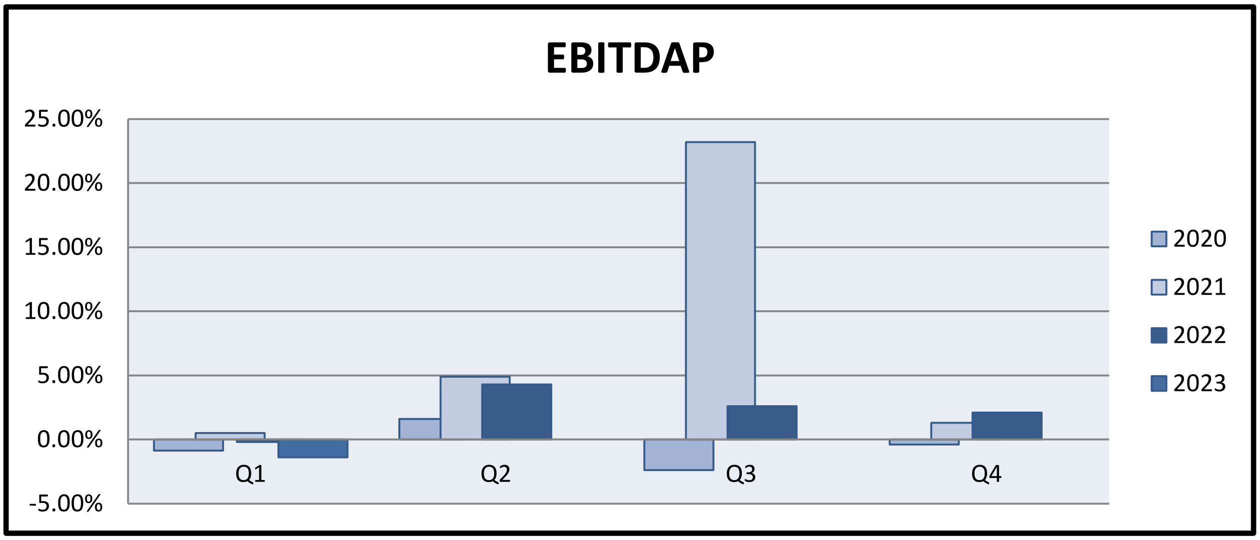
- ✓ Made-to-order sandwiches returning 6/12
- ✓ Pizza by the slice program launch 6/12, including new varieties of pizzas
- ✓ Continue working towards a stable and predictable menu to allow for online posting
- ✓ Keeping the Grab-and-go fully stocked
- ✓ Hired new Kitchen Manger with 30years of kitchen management/chef experience
- ✓ Continuing to update recipes and costs in software to manage margin
- ✓ Daily sampling
- ✓ Creating orders of operations and firm production schedules

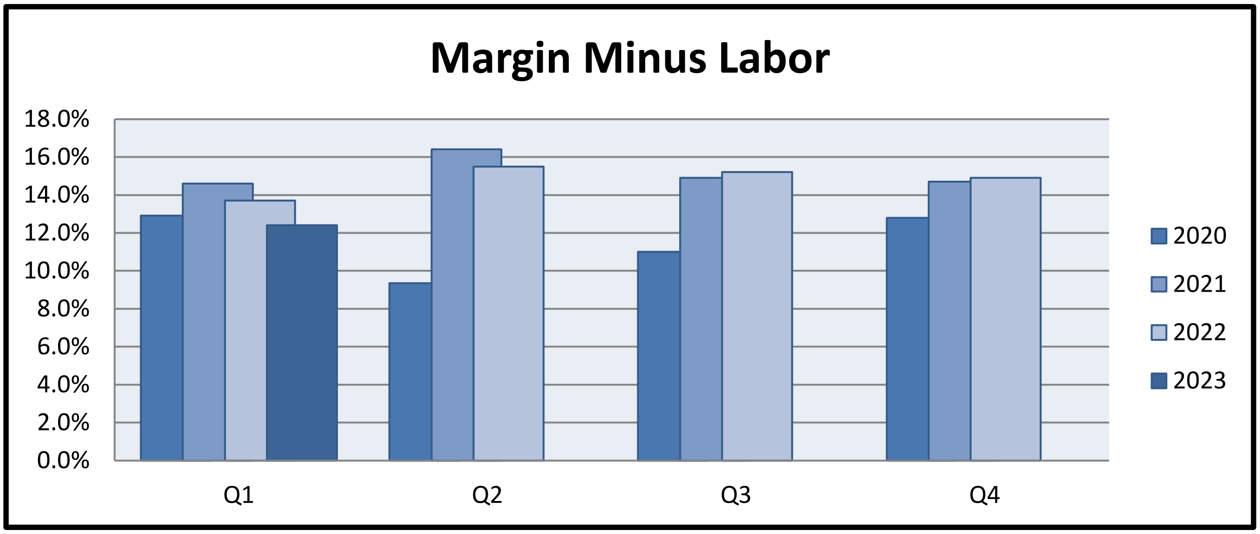
- Q1 2023 EBITDAP = -1.4%, thus we **out of compliance** with NCG requirements. As another measure of profitability, EBITDAP is often out of compliance when Net Income is.
- Q1 2023 **MML** = 12.4%. There is no minimum for compliance with NCG on this metric.
- This table shows our performance compared to the "typical" performance for our peer co-ops both across the nation and just in the west.
    - It is interesting to note that lots of other Co-op's struggled with net income in Q1
    - Our margin and MML beat those of our peers, which is terrific.

	Moscow Food Co-op	**National**	**Corridor**
Net Income	-2.9%	-2.8%	-2.1%
EBITDAP	-1.4%	-0.8%	0.2%
MML	12.4%	10.9%	10.1%
Margin	42.1%	38.4%	37.4%
Labor %	30.1%	27.9%	27.5%









Data indicates non-compliance on sub-policy B1.2.

Policy Language

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

Interpretation & Operational Definition:

This sub-policy requires the General Manager to keep the Board informed of the Co-op's relative liquidity and its 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.

Quick Ratio

Formula: (current assets – inventory) / current liabilities
Definition: Measures short-term debt-paying ability. The quick ratio, often referred to as the acid-test ratio, is obtained by subtracting inventories from current assets and then dividing by current liabilities.
Analysis: 1.0 ratio means the company has $1.00 in current assets less inventory to cover each $1.00 in current liabilities. **NCG requires a quick ratio above 0.7 for compliance**. The Moscow Food Co-op's long-term goal is 1.88.

Current Ratio

Formula: current assets / current liabilities
Definition: Measures debt-paying ability. Current assets are the sum of assets that typically convert to cash within 12 months. Current liabilities are the sum of amounts owed by the company and due within 12 months.
Analysis: 1.0 ratio means the company has $1.00 in current assets to cover each $1.00 in current liabilities. Look for a current ratio above 1.0 **NCG requires a current ratio above 1.25 for compliance.** The Moscow Food Co-op's long-term goal is 3.22.

Days Cash on Hand

Formula: Calculated by taking the average cash for 2 quarters. Divide that by the average daily amount of Cash Expenses. Cash Expenses are calculated by adding together COGS + cash operating expenses – depreciation/amortization + interest expense + taxes.
Definition: Measures the approximate number of days of cash the co-op currently has on hand.
Analysis: Days Cash on Hand, another liquidity measure, provides an indication of vulnerability. If too few days are on hand, a co-op may not be able to weather an emergency, such as a competitor opening up next door or the loss of utilities for a week. **NCG requires a minimum of 10 days of cash for compliance**. Cash savings are critical for future growth opportunities.

Inventory Turnover

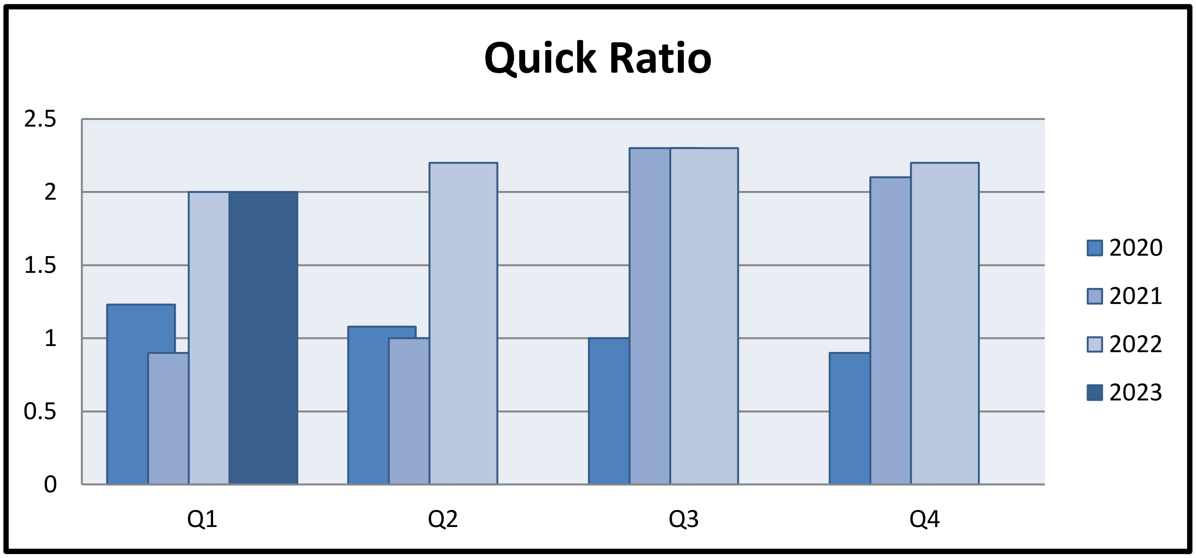
Formula: cost of goods sold (annualized) / average inventory
Definition: Number of times that you turn over (or sell) inventory during the year. Measures inventory liquidity.

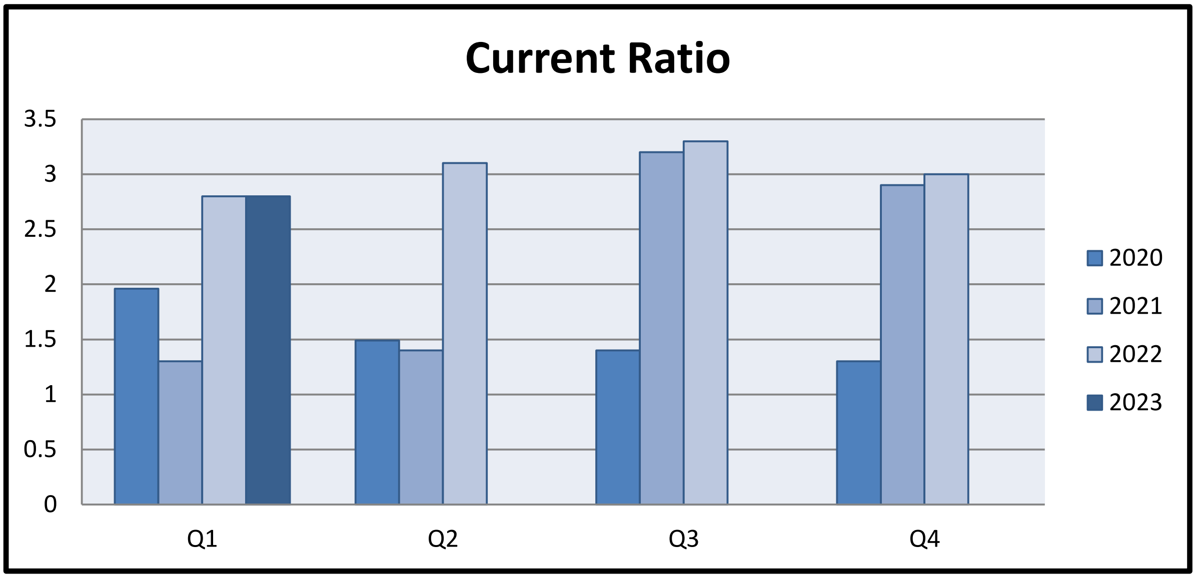
Analysis: Generally, a high inventory turnover is an indicator of good inventory management. But it can also mean there is a shortage of inventory. A low turnover may indicate overstocking, or obsolete inventory.

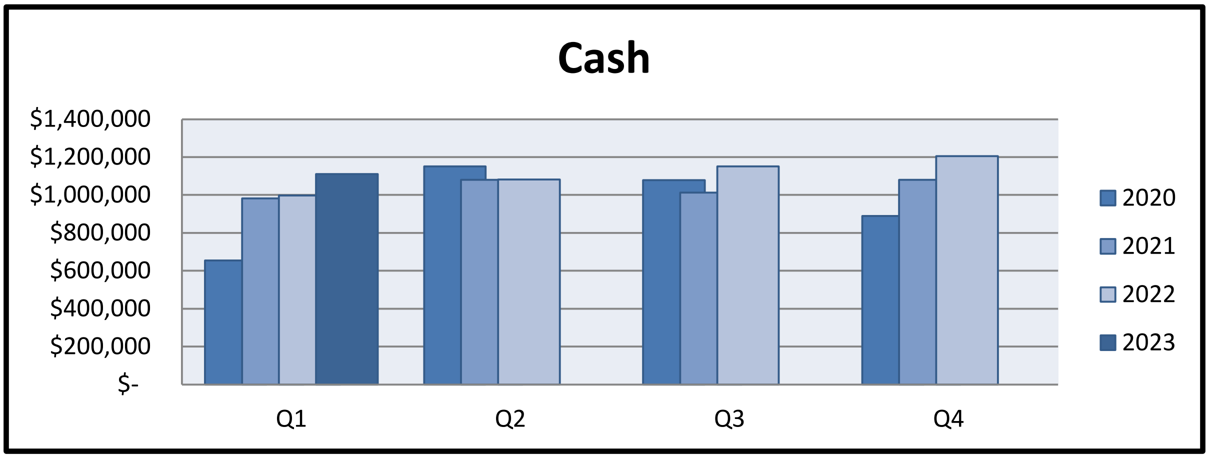
There is no NCG-established minimum for compliance on this metric. In general, we'd like to see inventory turns between 18 and 24 per year, the standard range for grocery stores.

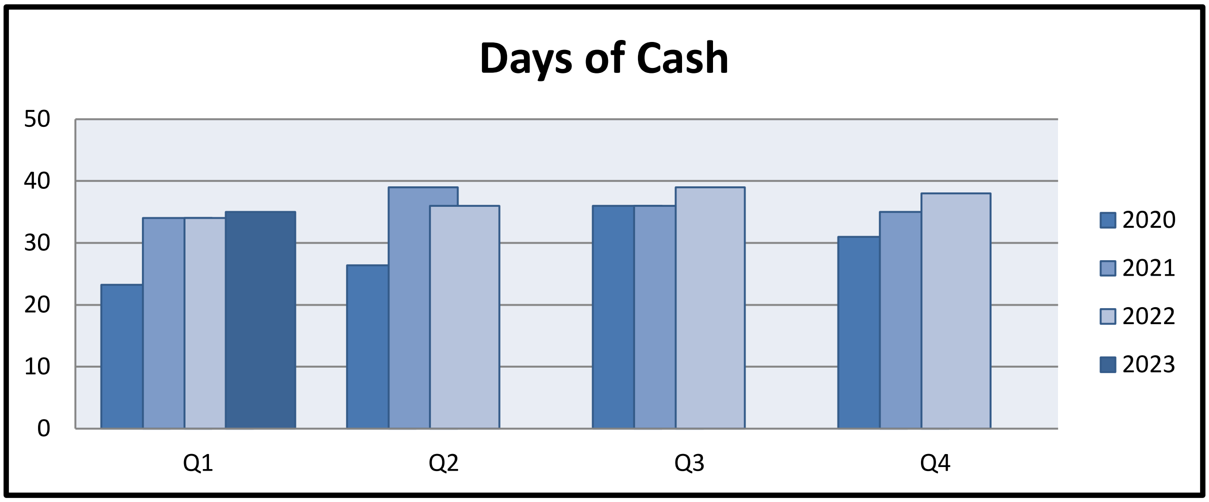
Data:

- Q1 2023 **Quick Ratio** = 2.0, **exceeding the NCG minimum for compliance**
- Q1 2023 **Current Ratio** = 2.8, **exceeding the NCG minimum for compliance**
- March 31, 2023 **Cash on Hand** = $1,110,261 (no NCG target)
- Q1 2023 **Days of Cash** = 35, **exceeding the NCG minimum for compliance**
- Q1 2023 **Inventory Turns** = 12.6 (no NCG target)









- This table shows our performance compared to the "typical" performance for our peer co-ops both across the nation and just in the west.

	Moscow Food Co-op	National	Corridor
Turns	12.6	14.5	15.7

Data supports compliance on sub-policy B1.3.

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

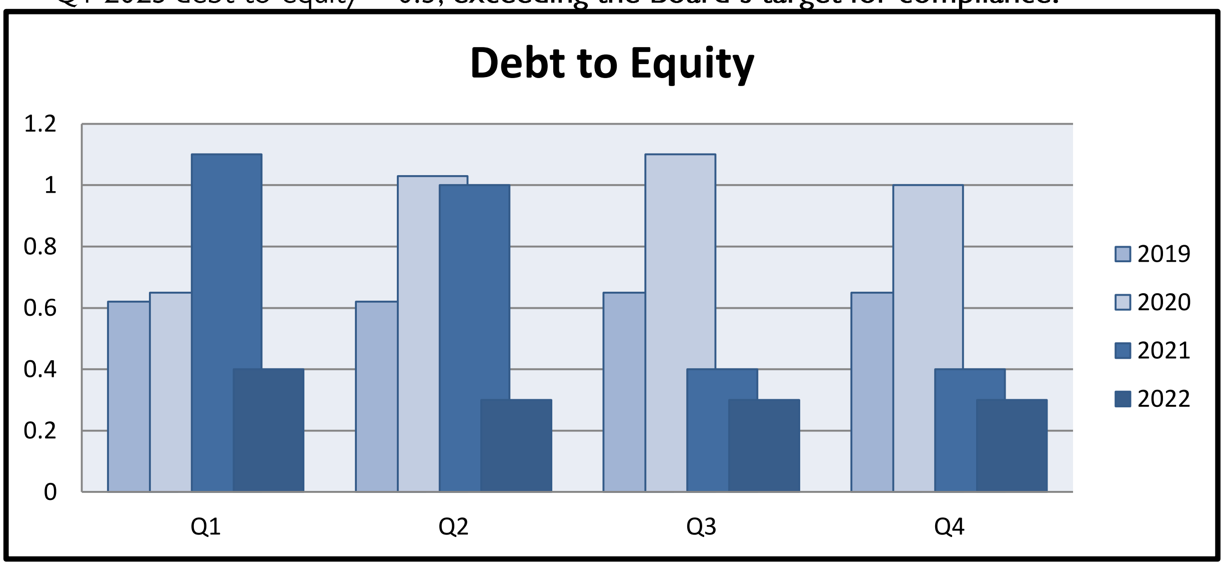
Interpretation & Operational Definition:
This sub-policy directs the General Manager to maintain the appropriate balance of debt to equity so that the needs of the business are met. The Board-established target for Debt-to-Equity is 1 and is interpreted as *in compliance* if the Moscow Food Co-op has a Debt-to-Equity ratio of **less than 1.**

Debt to Equity

Formula: (debt/equity)
Definition: Shows the ratio between capital invested by the owners and the funds provided by lenders and other creditors.
Analysis: Comparison of how much of the business was financed through debt and how much was financed through equity. A higher debt/equity ratio means that a company has been aggressive in financing its growth with debt. Too much debt can put your business at risk, but too little debt may mean that you are not realizing the full potential of your business and may actually hurt your overall profitability.
The NCG-established target for compliance is a Debt-to-Equity ratio of less than 3.

Data:

- Q1 2023 debt-to-equity = 0.3, **exceeding the Board's target for compliance.**



Data supports compliance on sub-policy B1.4.

Policy Language

B1.5 Allow growth in ownership and owner paid-in-equity to stagnate without cause

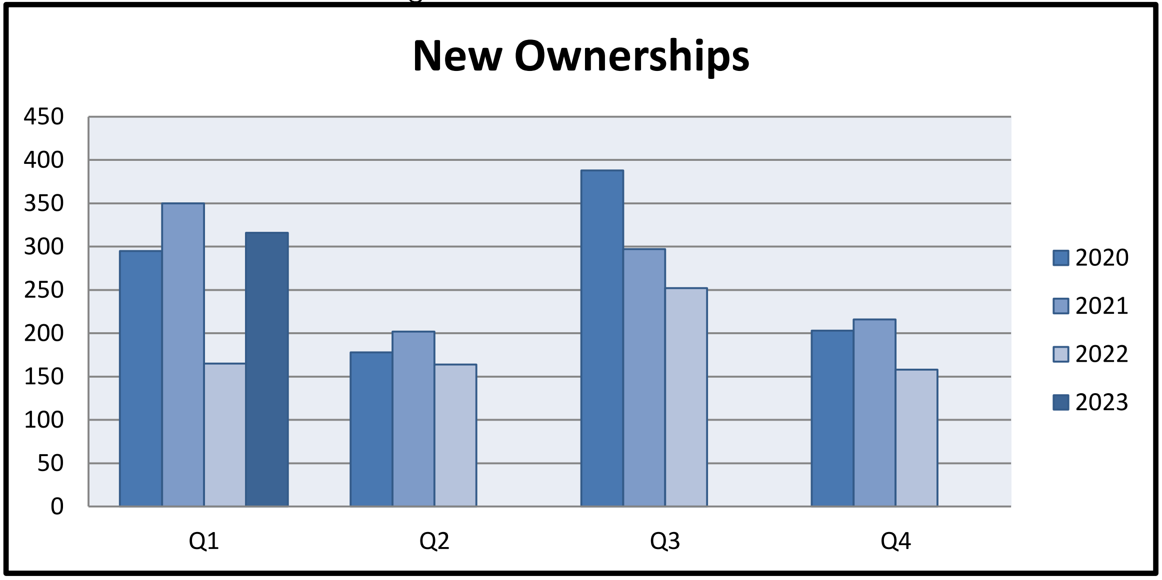
Interpretation & Operational Definition:

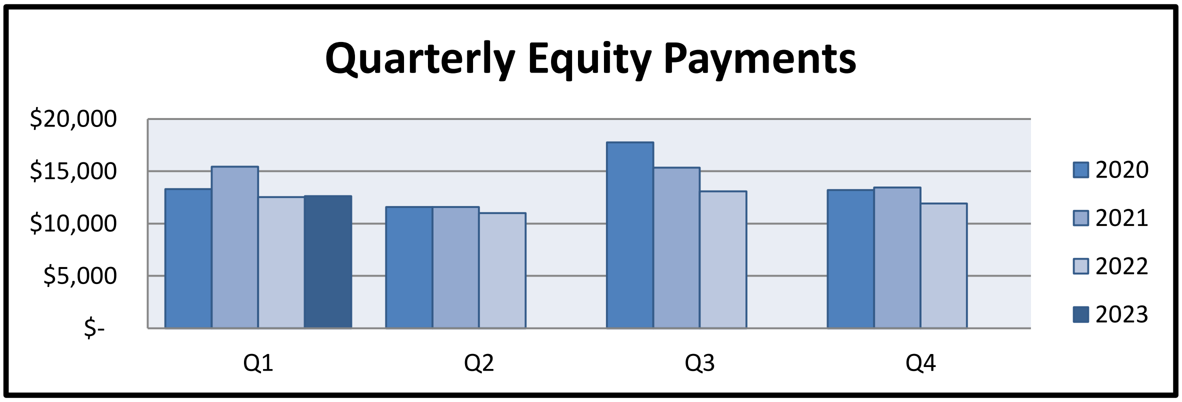
This sub-policy requires that the General Manager work to increase cooperative ownership and to ensure that invested owner equity dollars are sufficient to pay for some capital equipment expenditures.

Our goal for FY2023 is 3% growth in ownerships (internal goal set by staff).

Data:

- In Q1 2023, we welcomed 316 new owners, that's nearly double the 165 new owners recruited in Q1 2022.
- Total paid-in-equity grows year-over-year. 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 on sub-policy B1.5.

Policy Language
B1.6 Allow an event of default under the Cooperative's loan agreements.

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

We borrowed money from Adaama, a local lending group, to finance a portion of our 2018 remodel.

Data:
- All Adaama loan payments are current.

Data supports compliance on sub-policy B1.6.

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

Interpretation & 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 on sub-policy B1.7.

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 & 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:
- No new debt has been incurred.

Data supports compliance on sub-policy B1.8.

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

Interpretation & 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:
- No new lease agreements or rental contracts have been executed.

Data supports compliance on sub-policy B1.9.

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

Interpretation & 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 and filed accurately.

Data supports compliance on sub-policy B1.10.

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

Interpretation & Operational Definition:
This sub-policy prohibits the General Manager from 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 funds have not been earmarked or restricted.

Data supports compliance on sub-policy B1.11.

Policy Language

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

Interpretation & 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. As of January 2018, NCG requires an annual financial review of all business units.

Data:

- Wegner CPAs has begun work on our FY 2022 financial review.

Data supports compliance on sub-policy B1.12.