June 1, 2018
Policy B1 – Financial Condition & Activities, last revised: June 14, 2016
I report compliance with all parts of this policy unless otherwise noted below.
Unless indicated otherwise, this data is accurate as of June 1, 2018
I certify that the information contained in this report and any attachments is true.

General Manager
Attachments:

1. Q1 2018 P & L
2. Q1 2018 Balance Sheet
3. Q1 2018 Cash Flow

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.

Interpretation & Operational Definition:
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.

Policy Language
The GM must not:

B1.1 Allow sales growth to be inadequate.

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. 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. The minimum growth required by NCG for compliance is 3% and is reported on an annual rolling average. Our rolling average after Q4 is –1.4%, thus we are out of compliance with NCG. This means that our peer co-ops will be keeping an eye on our situation.

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:

- Sales Growth = -2.4% compared to Q1 2017. Because of our center store remodel/reset project (and the disruption), we predicted sales decline.
  - January was down 3% due in part to an all-day closure on January 2nd for inventory and an emergency closure at 11am on Saturday, January 20th due to toxic fumes. This emergency closure cost us about $30,000 in lost sales. Our contractor's insurance company has reimbursed us for lost profit from the closure (=$12,000).
  - February sales were down 6% compared to February 2017 primarily because we opted to postpone our February Owners Week sale until May. We also closed 2 hours early one evening for our staff party.
  - March sales were up 2.9% compared to march 2017.
  - Although we mindfully opted to reduce the amount of space allocated to gifts & mercantile items in the remodel, Wellness sales are slower than we anticipated. Kerry (Store Manager), Laura (Wellness Manager), and Wellness staff are working closely with Nina at NCG to improve Mercantile sales post-remodel.
- The Development Co-op projected an increase of 9% after the completion of our project. Because summer is slower for the Co-op, we expect to see this lift beginning in August.

Campus Sales for Q1: January - $11,247.18, February - $12,058.88, March – 11, 769.13
Data supports noncompliance.

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 is calculated by dividing the income statement total by net sales. 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. NCG requires 1.50% for compliance. EBITDAP is expressed as a % of sales. Prior to opening a full-sized second location, the Development Co-op wants to see an EBITDAP above 4%.

Data:

- Q1 2018 net income = -2.30% (-$60,131)
    - Additional labor for project work
- Q1 2018 EBITDAP = -0.46%
    - Declining sales impacts our ability to expand because it impacts our ability to meet the DC requirements for profitability.

Data supports noncompliance.

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 (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.

Current Ratio (current assets/current liabilities) measures short-term 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

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 2017. Looking at a multiple years of data, we see that about every fiscal year the Co-op has one quarter with a negative net income.

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.

Data:

- Quick Ratio = 2.15, exceeding the NCG minimum for compliance
- Current Ratio = 2.9, exceeding the NCG minimum for compliance
- Cash on hand = $1,003,653 (no NCG target)
- Days of cash = 30.35, exceeding the MCG minimum for compliance
- Days of cash and total cash on hand increased in Q4 2017 due to the funding of our Adaama loan for the center store project and decreased in Q1 2018 because we used that funding for our project.

Current Ratio
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
Q1
Q2
Q3
Q4
2013
2014
2015
2016
2017
2018

Cash
$1,800,000
$1,600,000
$1,400,000
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$-
Q1
Q2
Q3
Q4
2014
2015
2016
2017
2018

Days of Cash
50
45
40
35
30
25
20
15
10
5
0
Q1
Q2
Q3
Q4
2014
2015
2016
2017
2018

Data supports compliance.

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.

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.
- Debt-to-equity = 0.63

Data supports compliance.

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

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.

Data:

- The rate at which we recruit new owners has slowed, although we are taking the opportunity to offer new ownerships to students from the Co-op on Campus location.
- Paid-in-equity continues grow year-over-year, albeit more slowly than in previous years. 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 & 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:

- All Adaama loan payments are current.

Data supports compliance.

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.

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:

- Our Adaama loan was funded in December, 2017 with Board approval at the March 2017 meeting.

Data supports compliance.

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:

- We have not acquired, encumbered, or disposed of any real estate.

Data supports compliance.

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.

Policy Language

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

Interpretation & 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 funds have not been earmarked or restricted.

Data supports compliance.

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. Beginning in January 2018, the NCG will require an annual financial review.

Data:

- Our 2016 financial audit results were presented to the Board at a retreat in October 2017. The auditor reported that they did not find anything concerning in our work.
- Per NCG Operating Agreements, 2017 financials are currently being reviewed by Wegner CPAs.

Data supports compliance.