MOSCOW FOOD CO-OP

General Manager Monitoring Report

August 30, 2017

Policy B1 – Financial Condition & Activities, last revised: June 14, 2016

I report compliance with all parts of this policy.

Unless indicated otherwise, this data is accurate as of August 30, 2017

I certify that the information contained in this report and any attachments is true.

General Manager

Attachments:

1. Q2 2017 P & L
2. Q2 2017 Balance Sheet
3. Q2 2017 Cash Flow
4. Q2 2017 Budget vs. Actual

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.

I report compliance with the top level policy.

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. 3% is the minimum growth required by NCG for compliance and it's reported on an annual rolling average. Our rolling average after Q2 is -0.6%, 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:

- Q2 2017 sales were down 3.9% compared to Q2 2016 sales. All departments saw some degree of sales decline. Produce has reversed this trend in the third quarter, with almost 7% year over year sales growth through July and August.
- These results didn't come as a surprise. Based on national trends for co-ops and for brick-and-mortar retail in general, we were expecting to see sales decline. Half of the co-ops in the Western Corridor are experiencing this same phenomenon. The co-ops that are seeing positive sales growth are mostly small co-ops or co-ops that have recently expanded. As a result of this slower sales reality we were able to make some decisions that helped minimize the impact of declining sales.
    - We increased our efficiency and reduced labor where it made sense.
    - Q2 2017 we had fewer hours worked than Q2 2016 – we're getting more efficient.
    - Q2 2017 we paid out $865.82 in OT wages compared to $5097.66 in Q2 2016.

- As a result of declining sales, we've increased our advertising budget to drive more customers to the Co-op.
    - We're exploring new channels for marketing, including partnering with Vandal Athletics and the University of Idaho Sustainability Center, purchasing radio spots on ZFun 106 FM and myRadio 102.5 FM.
- The Development Co-op has predicted that we will experience 9% growth after the center store remodel work is completed. At this point we anticipate the remodel project to be completed in January 2018.

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. 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:

- Net income: even in the reality of declining sales, our net income met the NCG requirement for compliance
  - 2017 Q2 = 0.6% and $44.684 YTD
  - 2016 Q2 = 3.2% and $164,535 YTD
- EBITDAP: declining sales impacts our ability to expand because it impacts our ability to meet the DC requirements for profitability
  - 2017 Q2= 2.92%
  - 2016 Q2= 4.35%

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 & 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.

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

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:

- Paying off our long-term debt this year has resulted in increases in our CR and our QR over 2016.
- Cash on Hand increased slightly despite declining sales.
- Days of Cash decreased slightly.

Quick Ratio
2.5
2
1.5
1
0.5
0
2.32
2.18
Q1
Q2
Q3
Q4
2014
2015
2016
2017

Current Ratio
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
3.41
3.13
Q1
Q2
Q3
Q4
2014
2015
2016
2017

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.
- We will need to take on more debt to finance our remodel work with the Development Co-op. This additional debt (projected at $600,000 for this example) will increase our debt-to-equity ratio to 0.7%

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 along with declining sales. The opportunity to offer new ownerships to students from the Co-op on Campus location should help us boost this growth.
- Paid-in-equity has been flat in 2017. 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 & 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:

- Currently we have no business loans.

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:

- We have not incurred any new debts.
- Our most recent loan with Adaama was paid off in April. We expect loan disbursement in October to fund the remodel/reset project. The Board approved this loan 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:

- The board was informed at the August board meeting that we signed a lease extension on our current location through 2035.
- We are working with the Center and the Co-op's legal counsel to finalize the lease details for the campus location. The board has previously approved this lease.

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 2017, the NCG will require an annual financial review.

Data:

- Our 2016 financial audit results will be presented to the Board at the October 2017 meeting. In a preliminary conversation with our auditors, I was informed that they did not find anything concerning in our work.

Data supports compliance.