

**Finance Committee Meeting Minutes
January 6, 2010**

SUMMARY:

The Co-op has ended the year with a sales growth of 3.69% over 2008.

November sales came in at 5.49 percent higher than the same month in 2008. While sales have been somewhat steady, there has not been a dramatic uptick in sales for the 2009 holiday months of November and December. December ended with sales growth of 6.57% over 2008 (our strongest month of 2009).

Payroll is holding steady and is under forecast for the year of 2009. The 1st pay period of 2010 is also projected to be under budget. Management is continuing to closely monitor labor expenses to keep them in line with sales. Other Operating Expenses came in under budget in terms of dollars but not as a percent of sales for the month. YTD the "Other Operating Expenses" category continues to be under forecast in both dollars and as a percent of sales. While we are currently at full expense levels for the North Store's property expenses, we are continuing to benefit from constrained expenses elsewhere in Other Operating Expenses.

The issue we have with our Health Insurance liability which we talked about last month will be improved in 2010 because the Co-op will be switching benefit providers to keep the cafeteria plan costs in alignment. It will provide some extra benefits to staff and since it has no self-insurance component, it will bring the needed stability/predictably for financial planning. There is about \$60K that has been under-accrued over the last 18 months and Jacqueline is studying the best way to address this in the 2009 Financial Statements.

The committee reviewed the final spending costs related to North store Expansion. All expenses have been paid and expensed at this point. The results of this review were as expected and the committee has done a cashflow analysis (that was presented to the Board) that shows that we believe we can cover the cash-flow needs of the additional loan expenses for the next 5 years. The Committee also crafted governance change suggestions for future large projects to improve risk management.

Next month the committee will look at the 4th Quarter numbers and possible patronage scenarios.

AGENDA:

10 min **Standard business**

30 min. **Review of Financial statements**

30 min. **North Store Expansion Summary and Wrapup**

FINANCIAL COMMITTEE MINUTES:

Committee Members Present: Anne White (6:00p), Bettina Schempf, Jacqueline Smith, John Nichols, Larry Goeltz, Larry Plotkin, Tom Fenske

Others Present: None

Absent: Michele Adams

Scribe: Cheryl Good

Standard Business (Begin 5:30p)

Owner Comment:

None

Additions to this Agenda:

Moved CoCoFiST comparison to February

Announcements & Affirmations:

Bettina will be absent next month

Calendar and Timeline:

Next meeting 5:30 PM Feb 3rd unless notified otherwise

Handouts:

Emailed prior to meeting

Patronage Dividend Determination

At the next finance meeting Jacqueline will lead a discussion on possible patronage options and also pass that information on to the board that same month. For example, we can assume that due to our low cash situation that giving a full dividend would not be prudent, but there are tax and cash benefits to declaring a full dividend with a 20/80 split between payment and retained dividend. In addition, John Nicols suggested if the per-owner dividend amount is very small, a small perk (e.g. discount coupon) might be looked upon favorably by owners and still be cost effective. These discussions will not be based on any firm final numbers for 2009 as actual dividend

determinations are declared off of taxable income which will only be available from the CPA after their review of the 2009 financial statements.

Review of Financial Statements and Reports

Review of November Financial statements and December sales graphs. Jacqueline presented the highlights, including:

- November sales came in at 5.49 percent higher than the same month in 2008. While sales have been somewhat steady, there has not been a dramatic uptick in sales for the 2009 holiday months of November and December. December ended with sales growth of 6.57% over 2008 (our strongest month of 2009), and we have ended the year with sales growth of 3.69% over 2008.
- Payroll is holding steady and is under forecast. The 1st pay period of 2010 is also projected to be under budget. Management is continuing to closely monitor labor expenses to keep them in line with sales.
- Other Operating Expenses came in under budget in terms of dollars but not as a percent of sales for November. YTD OOE continue to be under forecast in both dollars and stated as a percent of sales. While we are currently at full expense levels for the North Store's property expenses, we are continuing to benefit from constrained expenses elsewhere in Other Operating Expenses. The Turkey discount program in November and the related \$2,100 expense is one of the reasons for the overage in November.
- Net Income from Operations - For the month of November, we did not meet the targeted operating income as a percent of sales or in terms of dollars. Year to date results still exceed our budgeted targets both in terms of dollars and stated as a percent of sales.
- Net Income - For November, we beat all our budgeted targets (month & YTD, percent of sales & dollars) except for the total dollars of income for the month of November, which fell short of the dollar target.
- Balance sheet – the change in cash and the marked increased in current liabilities is mostly due to extra holiday inventory (e.g. turkeys, mercantile, new olive oil distributor) purchased for the season and is only short-term.
- Cash position keeps improving. We have been out of the line of credit since mid-October.
- Will be switching benefit providers for staff health insurance to keep the cafeteria plan costs in alignment. It will provide some extra benefits to staff and needed stability/predictably for financial planning. There is about \$60K that he has been under-accrued over the last 18 months. This includes an amount that will be due to the current provider when we switch. In other words, the Co-op was paying more to the insurance company than was being expensed each payroll. When the bill gets paid it wasn't being reviewed to see if expenses matched accruals. The new plan is fully insured which means expenses will be more predictable.

Comments, Q&A

Q – Will a negative net income in November affect bonus eligibility?

A – The bonus is calculated based on the average of the quarter, so negative net income in one month might not affect the bonus.

Q - Credit card transactions are under cost. Are people using cards less?

A – There is less expense in this category because sales are under budget. Jacqueline expects expenses to continue to improve because the Co-op will be changing credit card service providers to comply with a new security protocol. They can assist with that transition. In addition, gift cards will be processed for free and overall fees are anticipated to go down. The store will also start buying gift cards from NCGA. These cards can be purchased in smaller quantities and they will be able to be used at other Co-ops using the same system. This new system will also speed up some administrative procedures for gift cards.

Q- Why were utilities under budget?

A- It may be because natural gas prices went down.

Board Budget Review

Governance Expenses Period Ended November 30, 2009	YTD Actual	YTD Budget	YTD Variance from Budget	Annual Budget	Left to Spend this year
Gov:Board Daily	8,407	6,600	(1,807)	7,200	(1,207)
Board Scribe Wages	3,095	4,136	1,041	4,512	1,417
Gov:Board Discretionary	6,430	17,006	10,576	18,552	12,122
Board Support Discounts	8,085	9,163	1,078	9,996	1,911
Owner Education & Outreach	18,623	14,388	(4,235)	15,696	(2,927)
TOTAL Governance Expense	44,640	51,293	6,653	55,956	11,316

Overall Governance expenses are expected to end the year below the full year budget.

North Store Expansion Summary and Wrapup

The committee reviewed the final spending costs related to North store Expansion. All expenses have been paid and expensed at this point. The results of this review were as expected and the committee has done a cashflow analysis (that was presented to the Board) that shows that we believe we can cover the cash-flow needs of the additional loan expenses for the next 5 years. The Committee also crafted governance change suggestions for future large projects to improve risk management. Jacqueline provided a spreadsheet summary for the committee to review (see below). As agreed upon in advance, the capitalized expenditures of research & development monies spent prior to project approval, lease expense for space being remodeled and interest expense from the construction loan are not included in this summary.

The final cost for the project was \$1,121,841. An additional budget (emergency capital) was approved but not all the money was used.

Amounts Budgeted / Allocated

Original Budget \$ 750,000

House Purchase \$ 236,000

Additional Allocations:

Available to spend from 2008 Capital Budget \$ 40,394

Available to spend from 2009 Capital Budget \$ 200,000

Subtotal: Amended Budget \$ 1,226,394

Additional Project Dollars Approved 4/09 \$ 155,198

Adjusted Total Project Budget \$ 1,381,592

Actual Expenses

House Purchase \$ 236,000

North Expansion Project \$ 1,121,841

Total Costs \$ 1,357,841

Remodel projects are notorious for being hard to bid accurately, and this one was no exception. We agree that the outcome is a beautiful neighborhood store. In the final analysis, the project was 49% more costly than the original estimate. Jacqueline feels one reason for the overage was the initial request was just too low. There had been several numbers being tossed around too early in the process before costs were researched and then it appeared the board was shocked at the nearly \$1 million amount Jacqueline suggested this might cost. So the amount was reduced even though Jacqueline feels like the \$1M request was more accurate. In addition, Michele was very optimistic that she could make up any cost overruns during the project but the challenges of a remodel proved to be too stubborn.

Jacqueline also provided a table showing the capital equipment expenditures of the additional the \$50K that was approved for necessary replacements or purchases.

Capital for 2009 - \$50,000 budget (approved 04/09)

Spent:

South Store Solar Patio \$ 9,495
Panini Grill - South Store Deli \$ 656
South Store Bottle Return Shed \$ 1,100
Broken window taken out at North Store and filled in with plywood and insulation \$ 1,235
Replace compressor in old rack at North Store \$ 4,594
Ice Merchandiser at the South Store-ours broke and was not worth fixing \$2,292
POS Upgrade \$ 7,756
Bakery cases for each store for increased sales \$ 5,914
Total spent: \$33,043

Adjourned 6:35pm