**Sample Monitoring Report, based on CBLD template policy**

Monitoring Report, *August 27, 2014*

Policy: B2 –Planning and Financial Budgeting, Last revised: May 22, 2014

**I report compliance with all parts of this policy except \_\_\_\_\_.**

Unless indicated otherwise is accurate as of July 31, 2014.

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

Signed\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, General Manager

Attachment: Co-op Business Plan for 2014-2016, including annual plan/budget for FYE 2015.

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

**Interpretation:**

Financial planning is essential to avoid financial jeopardy. The Co-op will have in place a multiyear business plan containing, as a component, a financial plan crafted to ensure the fiscal success of the co-op. The business plan also addresses the desired results in a larger context, including the social and environmental goals and 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 multiyear business plan updated for each fiscal year.
* The plan will show that we will accomplish (or move toward accomplishment of) the Ends policies.
* In B2.1, the board has defined “fiscal jeopardy” as those conditions that do not meet the criteria set in the Financial Conditions (B1) policy. The financial plan (budget) included as part of the business plan will be designed to meet or exceed those criteria.

**Data**:

* The business plan for FYE 2015 is included with this month’s board packet. The multiyear plan, covering 2014 through 2016, is on pages \_\_\_\_; the annual plan for FYE 2015 is on pages \_\_\_\_.
* Within the business plan, pages \_\_\_\_ describe the overall annual goals in relation to the Ends policies.
* See 2.1 below for data about fiscal jeopardy.

***GM Note:***

*The attached business plan is a summary and distillation of all research and inputs. The Co-op’s business plan is distributed to a wide audience. For prudence and confidentiality, the financial worksheets in the business plan are condensed statements. The Co-op prepares detailed pro-forma financial budgets, including revenue forecasts, cost of goods analysis and labor estimates, which are the basis of financial projections but are stored separately in the Supporting Documentation section. The GM respectfully reminds the board that this is an operational document and is not presented for Board ratification.*

**The GM must not:**

1. **Create plans or budgets that**
   1. **Risk incurring those situations or conditions described as unacceptable in the Board policy “Financial Condition and Activities.”**

**Interpretation:**

In executive limitation terminology, the business plan is designed to guide the co-op financially and sets 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, liquidity, member equity and loan requirements. The GM has provided the Board the Operational Definitions for these criteria in the B1 report dated *[date]*.

**Operational Definition:**

Each budget for the Co-op will show planned financial conditions within the limits defined in policy B1.

**Data**:

|  |  |  |  |
| --- | --- | --- | --- |
| Policy | Financial Condition | FYE 2011 Budget Projection | Reference page |
| B1.1 | Sales Growth > x% | Sales Growth = y% | 57 |
| B1.2 | Net Income > x% | Net Income = y% | 57 |
| B1.2 | EBITDAP > x% | EBITDAP = y% | 57 |
| B1.3 | Current Ratio > x | Current Ratio = y | 58 |
| B1.4 | Debt to Equity < x | Debt to Equity = y | 58 |
| B1.6 | Debt Service Coverage Ratio (DSCR) of not less than x | DSCR = y | 59 |

* 1. **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 long term by beginning with a realistic forecast of sales. Over the last several years, we have developed a very detailed method of projecting revenue based upon historical data and trend analysis. With projected revenue in place, expenses are proportionally allocated. Net revenue is projected to reflect a positive cash flow and return on owner investment. 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**

* Projections of revenues (sales), expenses, and owner investment (member equity) are based on historical data and trend analysis.
* We don’t specifically make projections of owner return (patronage dividend), 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 multi-year plan and the 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 our Leadership Team and externally by other knowledgeable professionals.

**Data:**

* The trend analysis is found in the body of the business plan and the sales and income projections are shown on the FYE 2015 pro forma income statement. The historical data are stored in supporting documentation.
* The pro-forma budget shows that we plan for a net income before patronage dividends of $xx.
* A separate capital budget was prepared for FYE 2015, and was approved by our loan officer and stored in supporting documentation.
* Cash flow projections for the FYE 2015 plan indicate positive 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 in the business plan and supporting documentation.
* Before presenting the FYE 2015 business plan in this packet, I asked for and received input from the Co-op Leadership Team, the GMs of AA Co-op, BB Co-op, CC Co-op, and representatives of NCGA and the ABC Co-op Loan Fund (who approves our capital plan). All parties favorably reviewed the business plan and thought the assumptions reasonable.
  1. **Do not address excellence in business systems and operations.**

**Interpretation:**

In addition to accomplishing our Ends, the co-op should strive to be an excellent business in other ways. The B1 – Financial Conditions monitoring report identifies several indicators of operational health and excellence. Some of these indicators are addressed in part 1a of this report; others will be addressed here.

**Operational Definition**

* Margin Minus Labor will be less than 22%.
* Sales/Labor hour will be above 67.
* Inventory turnover will be above 13.
* Total number of owners will grow at least 5%.
* Paid-in Equity will grow at least 5%.

**Data:**

|  |  |  |
| --- | --- | --- |
| Indicator | FYE 2015 Budget Projection | Reference page |
| Margin Minus Labor | MML = y% | 57 |
| Sales/Labor hour | SPLH = y% | 57 |
| Inventory turnover | Turnover = y | 58 |
| Ownership growth | Ownership growth = y% | 58 |
| Paid-in Equity growth | PIE growth = y% | 59 |

* 1. **Have not been tested for feasibility.**

*Notes about this part of the template report:*

1. *There are many kinds of projects for which this policy might apply. This sample report shows an example of how a GM could report about planning for a second store. Depending on the nature of your co-op’s actual plans, your own monitoring report might not exactly follow this template. If no major projects are in the works, the GM can still provide clear interpretation and operational definitions; the data can simply say: “No data to report. No major plans are currently underway.”*
2. *The data in this sample report shows that the GM has made use of several Columinate consultants as 3rd-party experts. There are other 3rd-party expert resources that a GM might rely on; for example, the NCGA and the NCGA Development Cooperative (DC) provide support for many expansion projects, and other companies also provide market studies. The key point of this sample report is not to suggest that a GM should use a particular expert; instead, the report shows how the GM can assure the board that objective professional experts have analyzed the plan’s feasibility.*

**Interpretation:**

In general, 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.

This report applies to the specific relocation project that the GM and Board have been considering for the past 6 months: a potential second store in *location X.*

**Operational Definition:**

Following the *Expansion* Toolbox guidelines, feasibility analysis for any major project will include:

* Market feasibility
  + 1. Professional market analysis and site analysis
* Internal Readiness

1. Internal assessment of key systems and operating areas
2. External assessment of key systems and operating areas

* Financial feasibility

1. Sources and Uses development budget
2. 5-year projection of income statement, cash flow, debt service and balance sheet
3. list of assumptions

* Design feasibility

1. Preliminary site and store design
2. Final site and store design

* Risk assessment

1. Board and GM conversation about risk and potential “worst-case” scenarios
2. Sufficient (based on 3rd-party assessment) contingency funds built into pro forma budget projections
3. Sufficient (based on 3rd-party assessment) working capital

**Data:**

* Market feasibility

In March 2014, Debbie Suassuna completed a Market Study for us. This Study (provided to the Board at the April 2014 meeting) analyzed our general trade area as well as 3 specific sites, including *location X*. Debbie’s analysis indicated that our market would support a second store in this location, and the projected sales in this location are used as a basis for the attached pro forma Income/Expense budget projection for the 1st five years of operation.

* Internal readiness

**Internal Assessment:** In December 2013 the management team used a SWOT analysis to identify which key systems/areas are working well and where we’ll need to make changes or focus attention. We created a plan of action based on that analysis, and have already begun implementing all parts of the plan.

**External Assessment:** In March 2014, Jeanie Wells, an expert in Capacity Assessment did an onsite assessment of our current and future capacity. Our Management Team has already begun to implement Jeanie’s suggestions, and all changes should be completed before November.

* Financial feasibility

1. The attached Sources and Uses Development Budget was created for us by Bill Gessner, an experienced and well-respected expert in co-op expansions. This Budget indicates that we will need to raise $x in member loans and $y in bank loans, while contributing another $z from our cash savings. Bill has said that he believes these projections are reasonable and that we have the capacity to accomplish these goals.
2. Attached to this report are 5-year pro forma projections of income statement, cash flow, debt service and budgets. These projections were created for us by Bill Gessner. They show that the new location should be profitable by the end of Year 3, and that we should be able to meet all our loan obligations.
3. The assumptions for the financial projections are specified in each projection.

* Design feasibility

1. Preliminary site and store design: Debbie Suassuna’s Market Study included a site analysis that indicates a store of x square feet will fit on the *location X* site. Nicole Klimek (an expert in store planning and design) has drafted a preliminary design for a store on this site, showing that we can meet our basic goals in this new building. Nicole’s preliminary sketches and notes are attached FYI.
2. Final design: We will ask Nicole to draw up a final design for us before we begin to put out an RFP for a project manager.

* Risk assessment

1. The Board and Management Team had a safe strategic conversation about the expansion project at the last board retreat; at the end of that day, all participants expressed a sense of excitement and alignment. Part of the conversation included an assessment and acknowledgement of the risks involved; these conversations will continue as needed throughout our project.
2. The attached pro forma budget projections include contingency funds. Bill Gessner has indicated that these contingency amounts are sufficient for our project.
3. Bill Gessner has also assessed our working capital needs; according to Bill, we should do fine as long as we maintain $x of cash throughout the project. This goal is incorporated in the GM’s monthly Expansion Project Update FYI report.
4. **Provide less for Board prerogatives during the year than is set forth in the Governance Investment Policy.**

**Interpretation:**

I interpret this to mean that the Annual Budget within the Annual Business Plan contains adequate funds for governance as called for by the board.

**Operational Definition:**

The board’s budget, as submitted by the board to management by the April meeting, is included in the Annual Business Plan. If the board fails to submit a budget by that date, a carryover number from the previous year is used as an estimate.

**Data**:

The FYE 2015 budget on page \_\_\_ of the business plan contains a line item for Cost of Governance showing $xx, the amount submitted by the board in April.