

**Treasurer's report from Howard Kaplan
For the Karma Board meeting of Monday, 1 February 2010**

At the last meeting, I presented some preliminary sales figures for December, compiled before the rest of the monthly accounts were complete. Since then, I've learned that such a preliminary sales figure is inaccurate, using our current cash registers, because it doesn't take into account the staff discounts. The attached financial statement includes the slightly more disappointing, accurate sales figure, both as a number and incorporated into the corrected version of the sales graph through the end of December. Even though December should be our best month, we did not quite break even on operations, and we are making little progress on increasing membership and sales.

Here are a few more things you should note about the statement:

- In December, we collected \$1980 in building fees, representing 110 members' fees. The year-to-date total, \$6903, is still less than half of the \$16,200 that we should collect from 900 members.
- On the statements, it appears as if we collected no building fees in December 2008, one year previously, but that's an accounting anomaly. Prior to this year, we were collecting the fees into a reserve fund for future renovations (a different accounting line). Effective this year, we're considering them income when collected.
- Our year-to-date expenses, other than staff and consulting, are up from \$49,900 last year to \$61,700 this year. Most of this change is increased depreciation, that is, an increase in the estimated loss of value of our building and equipment as they wear out. To put this another way, the money we spent on renovations was not considered an expense in the year it was spent, but instead it gets spread out over 20 years. The increase in depreciation represents the effect of that spreading showing up more in this year's statements than in last year's statements (because the work was still in progress for the first part of last year).
- We're operating with much less inventory now than one year ago, and that lower inventory is roughly the same as it was in June. This change is, presumably, one reason for our improved shrinkage figures – when the inventory of perishables is too high, they cannot be sold before their due dates, and we simply lose what we spent to purchase them.

I mentioned the staff discounts. Currently, the discount for all staff is 24.5%, a figure which just about cancels a nominal markup of 32.5%. For the unionized staff, the discount will be dropping slightly, to 22.5% off the nominal (working member) price – that's a provision of the new contract. The cash registers have been programmed with separate keys for union member and other staff discounts, so the percentage rates do not need to be identical. I believe this staff discount to be a non-taxable benefit, even though last summer we concluded that it was a taxable one. (That's still under investigation.) Therefore, it would not be practical to decrease the discount for non-union staff, making the discount uniform for all staff, and to give the non-union staff a compensatory increase in their salaries or wages – if we did that, the pay would be taxable, while the discount wouldn't be, and the staff would be at a disadvantage. I think it will cause less trouble, overall, to have two separate discount levels than to try to make appropriate adjustments to salaries and wages.

I'm concerned that the all-member mailout discussed at the last meeting, which was supposed to help us deal with the gap caused by the Chronicle's long publication delays, had not yet happened as of Wednesday, January 27. That mailout was supposed to include a recruiting advertisement for the Finance Committee, which is still underpopulated.

Since the last meeting, there has been an exchange of email concerning exactly what membership budget was passed by the Board in May, 2009, since the minutes of that meeting are unclear. I am satisfied that the budget figures circulated by Sarah represent what the Board actually considered and amended. Therefore, when the Board discusses this report, I will move that we correct those minutes. Please note that I am not asking the Board to approve the membership budget, only to correct the incomplete record that says that the last Board approved the budget.

Section 6(i) of those minutes currently says this:

- The following motion was passed:

THAT the membership fee of \$18 remain unchanged for 2009-10, and that the membership budget as presented by the Finance Committee be approved, with the sole change that the \$200 indicated for Business Planning be transferred to the Outreach Committee's budget, which now becomes \$700.

Moved by Donald. Seconded by Harry. Passed.

I propose the following motion for this meeting:

The Board hereby amends the minutes of its meeting of May 4, 2009, to add the following section at the end of item 6(i):

On February 1, 2010, the Board amended these minutes to incorporate this specific list of items approved by the motion above:	
Income	
16,200	(900 members @ \$18)
Expenses	
600	Members' portion of the audit
2,400	Membership Secretary
1,500	Board of Directors
5,000	Newsletter
2,000	Members' meetings
600	Staff Relations
200	Member Services
200	Food Issues
1,000	Events Committee
700	Outreach
16,200	Total expenses

In retrospect, now that I see what budget the Board passed, I'm quite unhappy with it. First, the budget presented by Donald to the Board was not the budget approved by the Finance Committee, according to my email records and the committee's minutes. Second, until I recently asked our bookkeeper for an explanation, I did not understand what some of the lines of the budget approved by the Board mean, and I suspect that the previous Board who passed the budget did not know either. Those lines were simply carried forward from earlier years' spending, without sufficient review. "Staff relations" was an accounting line for money that used to be spent on staff-appreciation parties, funded from the membership fees. "Member services" was, among other things, expenses related to conducting member surveys. Third – and this is a recurring problem – it is not clear what spending authority goes with this budget. I'm planning to make changes to the way the membership budget is presented and approved this year.

The other outstanding financial issue is collection of overdue debts to Karma. Debts can arise when food, membership loans, or membership fees are not paid for when they're ordinarily due. Justin has argued that our membership costs are getting in the way of sales growth, and I think

we need to take his concerns more seriously than we've done so far. Our February meeting on membership structure will be a part of that process.

However, until we make any changes, we need to deal with the issue of debts under our current membership structure. I propose the following updated policies for consideration, a credit policy and an incidental fees policy. If members think these require revision or more work, then I suggest we discuss them only briefly at the February meeting, perhaps voting to "approve them in principle", and have an appropriate body work on necessary revisions before the March meeting. I don't think the Finance Committee is that appropriate body, because most of the potential sticking points are political rather than financial.

Incidental fees policy (proposed)

The following are the fees associated with the granting of credit or of cheque-writing privileges and the resolution of debts:

For writing a current-dated cheque for the initial membership fee or loan, no charge

For writing a current-dated cheque for purchases, \$0.25

For writing a post-dated cheque, \$5

For writing an IOU, \$5, unless the IOU is paid by the end of the second business day after it was written

For writing an IOU or cheque because the debit terminal is malfunctioning, no charge

For having written a cheque that subsequently bounced, \$10 plus whatever banking fee was charged to Karma

Credit policy (proposed)

The following are all considered debts to Karma until they are paid:

Purchases (ordinarily paid immediately), including cheque charges

Flat fees or surcharges in lieu of work (ordinarily paid immediately)

Membership fees

Membership loans

Compensation for missed work shifts

Resolution of bounced cheques

Any special fees associated with IOUs or bounced cheques

Anything paid for by a post-dated cheque is considered to be a debt to Karma until the cheque clears. No cheque may be post-dated more than two weeks in the future.

No member may buy goods on credit that will bring the total debt to over \$100.

No member may write an IOU for more than \$25.

No member with an unresolved bounced cheque to Karma, for any amount, may shop.

No member from whom two cheques have bounced in the past two years may pay for anything by cheque.

No member with debts to Karma that exceed \$100, no matter how recent, may shop.

No member with any debts to Karma that are more than three months old may shop.

For purchases, and for any fees associated with IOUs, bounced cheques, or accidentally missed non-working fees, the three months are measured from the day of shopping.

For member loans, the three months are measured from the date of joining or from the date that any loan increase is approved by a general meeting.

For member fees, the three months are measured from the date the cashiers begin collecting the fees.

Even if a member is not actively shopping, a membership fee will become payable unless the member has formally resigned, and that fee will be deductible from the loan returned to the member if the member subsequently does formally resign.

A member with debts that would otherwise prevent shopping may pay off those debts along with shopping, provided that all of the debts and the shopping are paid at the same time, with the payment by cash, debit, or current-dated cheque. However, no member whose cheque has bounced in the previous year may clear debts and simultaneously shop by cheque.

Whenever a member has accumulated any debts other than the non-payment of membership fees, or when membership fees become three months overdue, a written note to that effect will be put on the shop-work card. If the debt is one of which the member might be unaware (for example, a bounced cheque), the member will be notified. When the accumulated debts are paid, the member will be given a written, dated receipt confirming that the debts are cleared.

Any household claiming that past debts have already been cleared must be able to provide the written receipt as evidence if challenged.

When a household has more than one member, the \$100 limits in this policy are limits per member. That is, they are to be multiplied by the number of members in the household and applied on a household basis.

When members resign, unpaid debts will be subtracted from the member loan before it is returned.

The Managers are authorized to decide, on a case-by-case basis, whether to revoke or restore cheque and credit privileges when the composition of member households changes.

Here are some additional facts and thoughts about these policy proposals:

The proposals are based on a mixture of current practice and what Donald Altman proposed almost a year ago, based on recommendations from the Finance Committee. For example, the Committee had proposed a \$250 credit limit and a 4-week (not 3-month) deadline; I'm proposing \$100, because our security in the form of the member loan is only \$70.

Most of the debts incurred until membership fees are paid will be cleared up within 3 months, they will not trigger the no-shopping limit, and they will not require us to put notes onto cards or issue special receipts.

The provision "No member may buy goods on credit that will bring the total debt to over \$100" may be somewhat more complicated to implement than it seems at first. Basically, it means that, whenever a member wants to buy goods on credit, the cashier needs to check both the shop-work card (which records past debts) and the file of unpaid membership fees (which holds additional debts in the first three months since the fees became collectible). Since so few members buy on credit, this won't be something the cashiers need to check very often.

I do not yet know how much of this paperwork can be moved from the shop-work cards to the cash registers, but there's no need to delay the policy until we know the answer.

When we approve this proposal (or a modified version of it), it should not take effect before April 1 of this year, so it does not contradict the slightly more generous terms we've allowed for the current round of membership fees (the building fees).