

**PENNSYLVANIA FOOD
MERCHANTS ASSOCIATION**

AREA 4 REBUTTAL EXHIBITS

COST REPLACEMENT HEARING

FEBRUARY 6, 2018

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INTRODUCTION

The Pennsylvania Food Merchants Association (hereafter "PFMA") conducted an analysis of in-store handling costs related to fluid milk. This study was supervised by Josh A. Pollet, CPA. The study was conducted utilizing stores located in the Pennsylvania Milk Marketing Board (hereafter "PMMB") Area 4 being studied. Raw data was obtained by PMMB and PFMA. PFMA has analyzed the raw data.

DEFINITIONS

In-store handling costs - In-store handling costs are defined as costs incurred from the time store personnel receive milk deliveries until the milk product is purchased and checked out at the check-out counter.

The total in-store handling cost is comprised of four separate components, which are personnel costs, building costs, equipment costs, and other operating costs.

Personnel costs - Costs relative to personnel, including salaries, wages, payroll taxes, fringe benefits and group insurance.

Building costs - Costs are comprised of rent, depreciation, and repairs.

Equipment costs - Costs are comprised of rent, depreciation, and repairs.

Other operating costs - Costs are comprised of utilities, telephone, insurance, advertising, bags, supplies, vehicle expense, business taxes, license fees, professional services, bad checks, cash loss, inventory and cash adjustments, G&A allocated from central headquarters, and miscellaneous expenses.

CROSS-SECTION

Stores included in the study are the same stores utilized by the PMMB in its cross-section (see Table 1).

SCOPE OF WORK

Financial and other store information was accumulated for use with the worksheet illustrated in Table 2. The financial information analyzed for each store, using the month of November 1999, was prepared in accordance with generally accepted accounting principles. The month of November is considered to be a representative month for the industry.

METHOD OF CALCULATION

Financial information was collected and analyzed on a store-by-store basis. The total milk handling expense per quart was calculated to be the Total Milk Expense (which is calculated by taking the total store expenses and multiplying them by the ratio of milk sales to total sales) divided by total quarts (see Tables 3 and 4).

WEIGHTING FOR PRICE DIFFERENTIALS

The methodology applied requires the calculation of a milk sales-to-sales ratio. Due to significant increase in milk prices from April 1999 to November 1999, an equalizing adjustment has been applied in order to eliminate distortions caused by these price fluctuations (see Tables 4 and 6).

CURRENT COST BASED ON CONSUMER PRICE INDEX

The cost of handling milk in retail outlets has changed since the above methodology was employed to measure the cost as of November 1999. The changes in cost are both a normal and ongoing part of doing business as a retail outlet. We have used the Consumer Price Index for All Urban Consumers (CPI-U) to calculate the change in costs for the time period from September 2016 to November 2017 (see Table 5). The CPI is the most widely used measure of price change. It is both a timely and reliable source of price change data.

The CPI is released monthly within two weeks after the end of the month. Therefore, it should be updated monthly to insure a current and accurate calculation of the cost of handling milk. The PMMB has adopted a policy to adjust the amount using a two-month delay. This means that the index for November 2017 would be used to calculate the January 2018 cost. The delay is acceptable to allow for timely, accurate calculations each month by the staff of the PMMB.

DEPARTMENTAL GROSS MARGIN COMPARISONS TO MILK

The graph (see Table 7) presents the gross margin by department of a variety of retail stores ranging from single store companies to multi-store companies for the 2016 reporting period representing a geographical area covering a majority of states and territories in the U.S. and Canada. Data was taken from the 2017 “Independent Grocers Financial Survey” report compiled by the National Grocers Association. Information from the study is presented with the gross margins realized by Area 4 retailers purchasing and selling at the minimum wholesale and retail prices.

TABLE 1

STORES INCLUDED IN THE AREA 4 SURVEY FOR IN-STORE HANDLING COSTS

Weis # 88

Turkey Hill # 95

Weis # 131

Keefer's Market

Sheetz # 193

Giant # 52

Sheetz # 211

Giant # 87

Uni-Mart # 4257

Karns # 6

TABLE 2

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION
AREA 4**

**IN-STORE HANDLING COST SURVEY,
STORE INFORMATION WORKSHEET**

Labor:		
	Wages:	_____
	Payroll Tax:	_____
	Insurance:	_____
	Benefits:	_____
Total Labor:		=====
Equipment:		
	Rental:	_____
	Repairs:	_____
	Depreciation:	_____
Total Equipment:		=====
Buildings:		
	Rental:	_____
	Repairs:	_____
	Depreciation:	_____
Total Buildings:		=====
Other Expenses:		
	Utilities:	_____
	Telephone:	_____
	Insurance:	_____
	Advertising:	_____
	Trash Removal:	_____
	Bags & Supplies:	_____
	Vehicle & Travel Expense:	_____
	Business Taxes (Not Income):	_____
	License Fees:	_____
	Professional Services:	_____
	Inventory & Cash Adjustments:	_____
	Miscellaneous (Laundry, Dues):	_____
	Administration:	_____
	Home Office:	_____
Total Other Expenses:		=====
Grand Total:		=====
Milk Sales in Dollars:		=====
Total Sales in Dollars:		=====
Quart Equivalents:		=====
<hr/>		
Store Name and Number: _____		
Manager: _____		
Address: _____		
Telephone #: _____		

TABLE 3

**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION
AREA 4**

**CALCULATION OF TOTAL IN-STORE MILK
HANDLING EXPENSE PER QUART**

Personnel Costs	\$ xx,xxx	
Building Costs	\$ xx,xxx	
Equipment Costs	\$ xx,xxx	
Other Operating Costs	\$ xx,xxx	
	<hr/>	
TOTAL IN-STORE HANDLING COSTS:		<u><u>\$ xxx,xxx</u></u>
November 1999 Milk Sales	\$ xxx,xxx	
DIVIDED BY:		
November 1999 Total Sales	\$ x,xxx,xxx	
	<hr/>	
MILK REVENUE RATIO:		<u><u>.xxxx</u></u>
Total In-Store Handling Costs	\$ xxx,xxx	
MULTIPLIED BY:		
Milk Revenue Ratio	\$.xxxx	
	<hr/>	
TOTAL IN-STORE MILK HANDLING EXPENSE:		<u><u>\$ xxx</u></u>
Total In-Store Milk Handling Expense	\$ xxx	
DIVIDED BY:		
November 1999 Quarts Sold	x,xxx	
	<hr/>	
TOTAL IN-STORE MILK HANDLING EXPENSE PER QUART:		<u><u>.xxxx</u></u>

TABLE 4**PENNSYLVANIA MILK MARKETING BOARD
MILK MARKETING AREA 4****COST FOR HANDLING MILK IN RETAIL OUTLETS
FOR THE MONTH OF NOVEMBER 1999**

	<u>Total Revenue</u>	<u>Milk Revenue</u>	<u>Personnel Expense</u>	<u>Building Expense</u>	<u>Equipment Expense</u>	<u>Other Expense</u>	<u>Total Expenses</u>	<u>Monthly Quarts</u>
Cross-Section Totals	<u>3,374,139</u>	<u>71,615</u>	<u>324,613</u>	<u>91,232</u>	<u>11,771</u>	<u>203,061</u>	<u>630,677</u>	<u>107,542</u>
Total Revenue	3,374,139							
Total Milk Revenue	<u>71,615</u>							
Milk Revenue Ratio	<u>2.12%</u>							
Personnel	324,613							
Building	91,232							
Equipment	11,771							
Other	<u>203,061</u>							
Total Expenses	<u>630,677</u>							
Milk Expenses	13,370							
Total Quarts	<u>107,542</u>							
Milk Expense per Quart	<u>0.1243</u>							
Per PMMB Order	<u>0.1202</u>							

TABLE 5**PENNSYLVANIA FOOD MERCHANTS ASSOCIATION
PENNSYLVANIA MILK MARKETING BOARD AREA 4****COST FOR HANDLING MILK IN RETAIL OUTLETS
FOR THE FOURTEEN MONTHS ENDED NOVEMBER 2017**

	<u>MONTH</u>		<u>CPI INDEX</u>		<u>In-Store Handling Cost Per PMMB Order A- 954</u>
Milk expense per quart at last cost replacement hearing:	September	2016	241.428		\$ 0.1725
Divided by CPI-U Index					
Multiplied by CPI-U index	October	2016	241.729	=	\$ 0.1727
	November	2016	241.353	=	\$ 0.1724
	December	2016	241.432	=	\$ 0.1725
	January	2017	242.839	=	\$ 0.1735
	February	2017	243.603	=	\$ 0.1740
	March	2017	243.801	=	\$ 0.1742
	April	2017	244.524	=	\$ 0.1747
	May	2017	244.733	=	\$ 0.1748
	June	2017	244.955	=	\$ 0.1750
	July	2017	244.786	=	\$ 0.1749
	August	2017	245.519	=	\$ 0.1754
	September	2017	246.819	=	\$ 0.1763
	October	2017	246.663	=	\$ 0.1762
	November	2017	246.669	=	\$ 0.1762

TABLE 6
PENNSYLVANIA MILK MARKETING BOARD
MILK MARKETING AREA 4

Weighting of Prices
April 1998 and November 1999

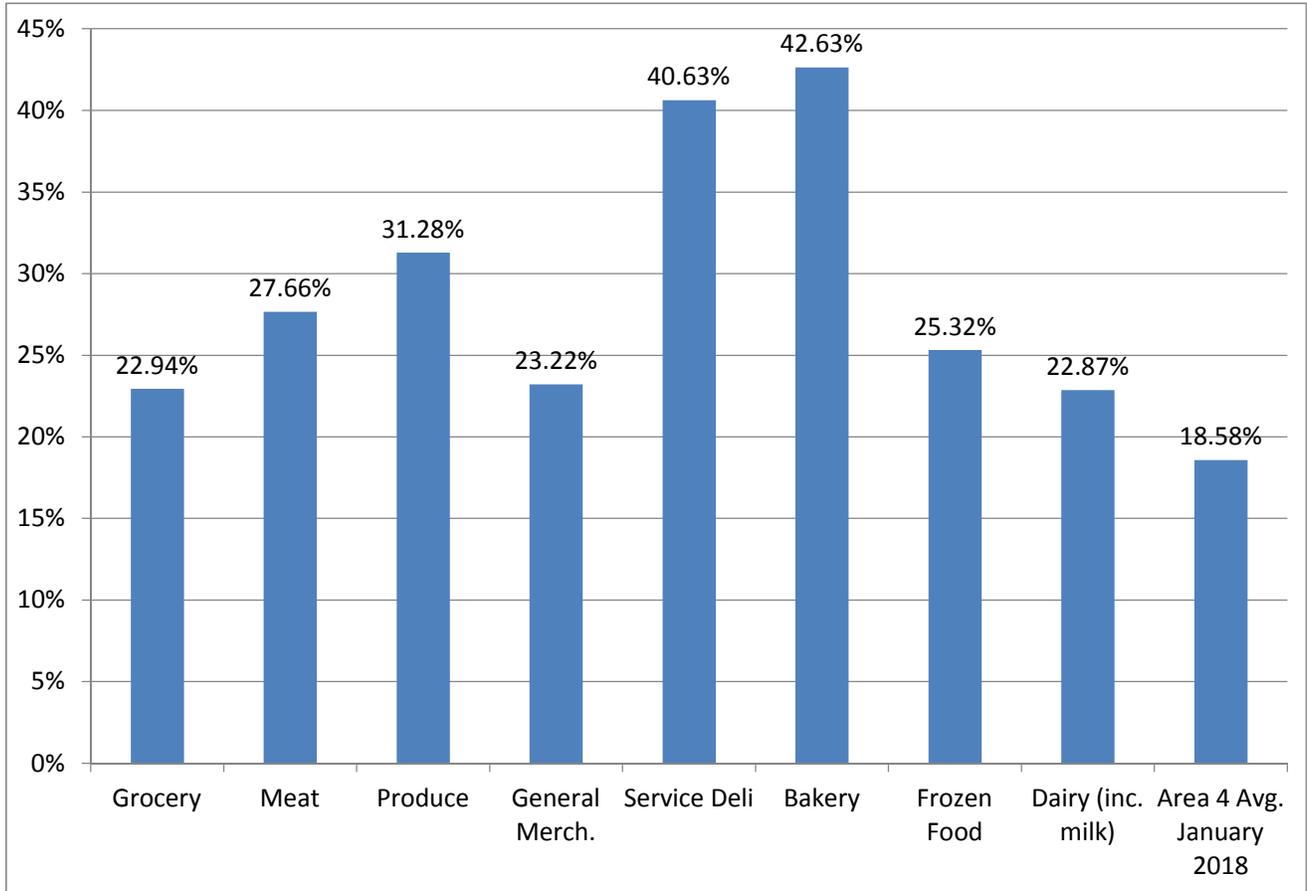
	<u>April 1998*</u>	<u>Units^</u>	<u>Weighted Price</u>	<u>November 1999*</u>	<u>Units^</u>	<u>Weighted Price</u>
Standard:						
Gallon	2.65	733,250	1,943,113	2.90	733,250	2,126,425
1/2 Gallon	1.34	574,500	769,830	1.49	574,500	856,005
Quart	0.69	235,000	162,150	0.77	235,000	180,950
2% Milk:						
Gallon	2.51	771,250	1,935,838	2.76	771,250	2,128,650
1/2 Gallon	1.27	595,000	755,650	1.42	595,000	844,900
Quart	0.65	181,000	117,650	0.74	181,000	133,940
1% Milk:						
Gallon	2.44	291,250	710,650	2.65	291,250	771,813
1/2 Gallon	1.23	292,000	359,160	1.36	292,000	397,120
Quart	0.63	67,000	42,210	0.71	67,000	47,570
Skim:						
Gallon	2.31	409,250	945,368	2.56	409,250	1,047,680
1/2 Gallon	1.17	483,500	565,695	1.32	483,500	638,220
Quart	0.60	176,000	105,600	0.69	176,000	121,440
		TOTAL	<u>8,412,914</u>		TOTAL	<u>9,294,713</u>
* - PMMB minimum price			RATIO			<u>8,412,914</u>
^ - From PMMB "Characteristics of Packaged Fluid Milk Sales Report October 1997," Table 15						<u>9,294,713</u>
		Price Index:				<u>0.9051</u>

TABLE 7

**PENNSYLVANIA MILK MARKETING BOARD
MILK MARKETING AREA 4**

**DEPARTMENTAL GROSS MARGIN COMPARISONS TO MILK
JANUARY 2018**

DEPARTMENTS OF INDEPENDENT RETAILERS



Calculation for "Area 4 Avg. January 2018"

Current Wholesale Price (per quart)	0.9966		
Deepest Discount (\$0.1010)	<u>-0.101</u>		
Current Cost Less Discount	0.8956	Current Retail Price	1.10000
			<u>(0.8956)</u>
		Gross Profit	0.2044
		Gross Profit %	18.58%

TABLE 8

Josh A. Pollet, CPA *Curriculum Vitae*

EDUCATION

Pennsylvania State University – B.S. Degree in Accounting (2004)

EMPLOYMENT

Herbein + Company, Inc. – Reading, PA

October 2017 to present
Partner – Accounting & Auditing Department

July 2014 to September 2017
Senior Manager – Accounting & Auditing Department

December 2011 – June 2014
Manager – Accounting & Auditing Department

July 2009 – November 2011
Supervisor – Accounting & Auditing Department

December 2007 – June 2009
Senior Accountant – Accounting & Auditing Department

July 2006 – November 2007
Advanced Staff Accountant – Accounting & Auditing Department

January 2005 – June 2006
Staff Accountant – Accountant & Auditing Department

February 2004 to April 2004
Tax Department Intern

PROFESSIONAL AND CIVIC ASSOCIATIONS AND DESIGNATIONS

CPA – Commonwealth of Pennsylvania (2010)

Member – American Institute of CPAs

Member – Pennsylvania Institute of CPAs;
Member – Accounting & Auditing Committee, Reading Chapter

Firm Member – Allinial Global

National Society of Accountants for Cooperatives (NSAC)

- President – Accounting & Auditing Committee
- Vice President – Atlantic Chapter

RECENT SPEAKING ENGAGEMENTS

- Quality Chekd Dairies Annual Meeting – The Benefits of Cost Benchmarking (2015)
- National Society of Accountants for Cooperatives (NSAC) Conference – The Importance of Cost Accounting in Your Business (2016)
- International Dairy Foods Association – Dairy Accounting & Finance Workshop (2017)

SPECIFIC DAIRY RELATED EXPERIENCE

- Significant experience working in dairy consulting engagements on a broad scope of topics
- Worked with other state regulatory bodies to establish pricing/margins at the farmer, processor, and consumer levels