

STATEMENT OF DAVID W. STONESIFER, CPA

Submitted to the Maine Milk Commission

Retail Margins Study

May 22, 2014

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MAINE MILK COMMISSION

My name is David W. Stonesifer and I am a CPA licensed in the States of Pennsylvania and Arizona. My address is 2763 Century Boulevard, Reading, PA 19610. I am a partner of Herbein + Company, Inc. a regional CPA firm that practices extensively and nationwide in the dairy industry. I have attached my Curriculum Vitae, as Exhibit A which outlines my education, and experience in the dairy industry. I am familiar with the milk marketing conditions in Maine. Herbein + Company, Inc. has been engaged by the Maine Milk Commission to update the retail margins (cost study). In this statement, I will present details as to the study conducted, will explain the attached exhibits which reflect our findings, and will provide other comments that I believe are appropriate for the Maine Milk Commission's consideration in their task of adjusting retail margins.

Background and Purpose of Study

The Maine Department of Agriculture, Food and Rural Resources – Maine Milk Commission – Chapter 27 – Retail Margins states “the Maine Milk Commission is vested with the power to establish and change, after investigation and public hearing, the minimum wholesale and retail prices to be paid to producers, dealers and stores for milk received, purchased, stored, manufactured, processed, distributed or otherwise handled within the State of Maine. Further the law states that the minimum retail prices established for payment by consumers shall be based on the minimum wholesale price that retail stores must pay to dealers plus a rate of return to the retail store (retail margin) deemed just and reasonable by the Commission.” The Maine Milk Commission has engaged Herbein + Company, Inc. to

study, review, and present costs which will satisfy the Commission's statutory requirement to conduct a cost study and to update retail margins.

Study Conducted

The firm of Herbein + Company, Inc. reviewed the State of Maine statute, reviewed the prior margin studies, and visited and obtained financial information from a selection of Maine retailers. The procedures performed by the staff of Herbein + Company, Inc. were developed by me and all work and analysis conducted has been reviewed by me. I visited the State of Maine, and each of the ten retailers selected, as part of this project.

The study was conducted utilizing a sample of ten stores located throughout the State of Maine (see Exhibit B). The raw data for this study was collected through responses to data collection surveys that were sent directly to each participant (a blank copy of the survey is attached to this testimony, see exhibit E). The financial information obtained through the surveys to the retailers was for the entire fiscal year 2012 for each store.

Method of Calculation

The Kirkland method was used to calculate the in-store handling costs for each store. Exhibit C presents the Kirkland method of calculating the in-store handling cost for a fictitious store. It is important to note that the numbers presented on Exhibit C are hypothetical and are only presented as part of this testimony to demonstrate the method of calculation. They are not part of the calculation of the retail margin.

The in-store handling cost calculation within the Kirkland method has two components; a milk handling component and a checkout expense component. Each component is calculated by applying allocations

based on square footage used to display milk as a percentage of total square footage and an allocation of checkout costs based on units of milk sold as a percentage of total units sold.

Procedures

Financial information was collected via survey from the ten retail outlets located in various regions throughout the State of Maine. This information was analyzed on an individual store basis. In addition to the collection of the financial data, we conducted site visits to each store included in this study. During the visits to each store, measurements were taken by me and an additional Herbein + Company staff member to verify the square footage of the checkout space within each store as well as the square footage allocated to the cooler, display fronts and any other storage areas for fluid milk products. The measurements taken during each of those visits are the basis for the allocations utilized within the Kirkland method.

Upon receipt of the completed surveys from the ten retailers, the data was compiled, and the Kirkland method was applied to each individual store to arrive at that particular store's costs (both direct and indirect costs) to handle quart, half gallon, and gallon containers of fluid milk. After those costs were calculated on an individual store basis, a weighted average cost was determined based upon quart equivalent units sold within each store. The results of those calculations can be found on Exhibit D. I present the results on Exhibit D for the 2014 study for the gallon, half gallon and quart sizes. Exhibit D illustrates the results of the current year study as compared the prior four studies performed in 2007, 2002, 1999 and 1994.

For the purpose of this study, direct costs are defined as those costs attributable to the receipt, handling and storage of fluid milk products. These costs include personnel, building, equipment and other expenses. Personnel costs include time spent purchasing and receiving milk and stocking the cooler displays, inclusive of employee fringe benefits. Personnel costs also include time spent in the checkout

area of the retailer, allocated based on a percentage of milk units sold over total units sold through the store. Building costs include land and construction expenses, property taxes and repairs and maintenance. Equipment costs include depreciation and repair costs of the coolers and milk handling equipment. Other expenses include general and administrative expenses, indirect labor as well as a corporate overhead allocation. Building, equipment and other costs were allocated through a combination of a square footage allocation and a unit sales allocation.

Conclusion

Thank you for the opportunity to conduct this study on behalf of the Maine Milk Commission and for considering our findings presented in the report exhibits. I believe that the utilization of these statistics will allow the Maine Milk Commission to establish the retail margins that will satisfy the statutory requirements while providing for a healthy environment for the Maine milk industry.

Exhibit A

David W. Stonesifer, CPA
Curriculum Vitae

EDUCATION

Albright College – B.S. Degree in Accounting (1996)
Presidential Scholar
Lewis D. Pepe Memorial Accounting Award Recipient

EMPLOYMENT

Herbein + Company, Inc., Reading, PA
October 2008 to present
Partner – Accounting & Auditing Department
Dairy Department Specialization – audit and compliance partner, dairy cost accounting, state regulatory price hearings, dairy industry consultant

June 2005 to September 2008
Senior Manager – Accounting & Auditing Department

July 2002 to May 2005
Manager – Accounting & Auditing Department

January 2000 to July 2002
Supervisor – Accounting & Auditing Department

June 1998 to January 2000:
Senior Accountant – Accounting & Auditing Department

July 1997 to June 1998:
Advanced Staff Accountant – Accounting & Auditing Department

September 1996 to July 1997:
Staff Accountant – Accountant & Auditing Department

February 1995 to April 1995:
Tax Department Intern

PROFESSIONAL AND CIVIC ASSOCIATIONS AND DESIGNATIONS

CPA – Commonwealth of Pennsylvania, State of Arizona
President – Reading Chapter of Pennsylvania Institute of Certified Public Accountants
Executive Council Member – Pennsylvania Institute of Certified Public Accountants
Member – American Institute of Certified Public Accountants
Member – Pennsylvania Institute of Certified Public Accountants
Member – National Society of Accountants for Cooperatives – Capital Chapter
Board Member – Albright College Business Advisory Council
Former board member and finance committee member – YMCA of Reading & Berks County (2006 to 2008)
Former board member – Greater Reading Young Professionals Network

EXHIBIT B
STORES INCLUDED IN THE STUDY OF
RETAIL MARGINS

Cumberland Farms - 65 Madison Ave. - Skowhegan

Cumberland Farms – 49 Pine St. – Portland

Hannaford – 86 Cottage St. – Bar Harbor

Hannaford – 787 Riverside St. – Portland

Hannaford – 100 Fairgrounds Marketplace – Skowhegan

Shaw's – 150 Western Ave. – Augusta

Shaw's – 1364 Congress St. – Portland

Shaw's – 670 Bath Rd. – Wiscasset

Walmart – 201 Civic Center Dr. – Augusta

Walmart – 24 Walton Dr. - Brewer

**KIRKLAND METHOD EXAMPLE
EXHIBIT C**

IN-STORE HANDLING COST - INPUT INFORMATION	
TOTAL SQ. FT. OF BUILDING	78,000
TOTAL SQ. FT. OF MILK DISPLAYS	60
TOTAL SQ. FT. DRY STORAGE FOR MILK	40
TOTAL SQ. FT. CHECK-OUT SPACE	2,200
TOTAL SQ. FT. MILK COLD STORAGE	130
QUARTS DELIVERED (ANNUALLY)	130,000
UNITS DELIVERED (ANNUALLY)	43,000
UNITS SCANNED (ANNUALLY)	2,300,000
TOTAL DOLLAR SALES (ANNUALLY)	\$ 6,000,000
TOTAL MILK SALES IN \$'S (ANNUALLY)	\$ 125,000
MILK LABOR COSTS - INCLUDING FRINGES (ANNUALLY)	\$ 9,000
CHECKOUT LABOR COSTS (ANNUALLY)	\$ 28,000
EQUIPMENT COSTS (ANNUALLY)	\$ 42,000
BUILDING COSTS (ANNUALLY)	\$ 20,000
OTHER COSTS (ANNUALLY)	\$ 1,400,000
TOTAL OPERATING EXPENSES	\$ 1,499,000

IN-STORE HANDLING COSTS - COMPUTATION FORMULA

	Expense		Sq. Ft. Allocation		Sales Allocation		Milk Handling Expense	Checkout Expense
PERSONNEL EXPENSE:								
CHECKOUT EXPENSE	\$ 28,000	x	1.000000	x	0.018696	=		\$ 523.48
MILK HANDLING EXPENSE	\$ 9,000	x	1.000000	x	1.000000	=	\$ 9,000.00	
BUILDING EXPENSE:								
CHECKOUT EXPENSE	\$ 20,000	x	0.028205	x	0.018696	=		\$ 10.55
MILK HANDLING EXPENSE	\$ 20,000	x	0.002949	x	1.000000	=	\$ 58.97	
EQUIPMENT EXPENSE:								
CHECKOUT EXPENSE	\$ 42,000	x	0.028205	x	0.018696	=		\$ 22.15
MILK HANDLING EXPENSE	\$ 42,000	x	0.002949	x	1.000000	=	\$ 123.85	
OTHER EXPENSE:								
CHECKOUT EXPENSE	\$ 1,400,000	x	0.028205	x	0.018696	=		\$ 738.24
MILK HANDLING EXPENSE	\$ 1,400,000	x	0.002949	x	1.000000	=	\$ 4,128.21	
TOTAL EXPENSES:								
					CHECKOUT EXPENSE			\$ 1,294.41
					MILK HANDLING EXPENSE		\$ 13,311.03	
DIVIDED BY:					UNITS DELIVERED			43,000
					QUARTS DELIVERED		130,000	
CHECKOUT COST PER CONTRAINER:								\$ 0.0301
MILK HANDLING COST PER QUART:							\$ 0.1024	
TOTAL COST PER QUART CONTAINER:						<u>Per Container</u>		<u>Per Quart</u>
						\$ 0.1325		\$ 0.1325
TOTAL COST PER HALF GALLON CONTAINER:						\$ 0.2349		\$ 0.1174
TOTAL COST PER GALLON CONTAINER:						\$ 0.4397		\$ 0.1099
AVERAGE COST PER QUART - ALL CONTAINERS								\$ 0.1200

EXHIBIT D

MINIMUM RETAIL MARGINS

	1994	1999	2002	2007	2014	CHANGE IN \$ 2007-2014
Container Size:						
Gallon	\$ 0.1850	\$ 0.1850	\$ 0.1967	\$ 0.3619	\$ 0.3588	\$ (0.0031)
Half Gallon	\$ 0.1370	\$ 0.1050	\$ 0.1107	\$ 0.1609	\$ 0.1944	\$ 0.0335
Quart	\$ 0.1280	\$ 0.0750	\$ 0.0929	\$ 0.0905	\$ 0.1122	\$ 0.0217

PERCENTAGE CHANGE

	1994	1999	2002	2007	2014
Container Size:					
Gallon	-7.50%	0.00%	6.32%	83.99%	-0.85%
Half Gallon	5.38%	-23.36%	5.43%	45.35%	20.81%
Quart	19.63%	-41.41%	23.87%	-2.58%	23.94%

EXHIBIT E

Maine Milk Commission

Herbein + Company, Inc.

We want to thank everyone involved for their time they spend completing this survey. There are seven sections of the survey:

- | | |
|----------------------|---|
| 1. Sales information | 5. Electricity |
| 2. Land and building | 6. Store-level miscellaneous and overhead |
| 3. Capital equipment | 7. Corporate and divisional overhead |
| 4. Labor | |

Each section listed above is detailed on a separate worksheet. Individual sections of the survey may be more easily answered by a variety of individuals. We would ask that the names and phone numbers of everyone completing the survey are listed below on the "General" worksheet. In a case where we might have a follow-up question, this information would be very helpful. When the survey is complete, please return it to the address listed below. Thank you for your time!

Please feel free to call or email me if you have any questions when completing this survey.

Josh Pollet, CPA
Accounting Manager
Herbein + Company, Inc.
2763 Century Boulevard
Reading, Pennsylvania 19610
Phone: 610-378-1175
Email: japollet@herbein.com

General Survey

Store Name: _____

Store Location: _____ Street _____ City _____

Survey Selections	First Name	Last Name	Phone Number
1. Sales Information	_____	_____	_____
2. Land and Building	_____	_____	_____
3. Capital Equipment	_____	_____	_____
4. Labor	_____	_____	_____
5. Electricity	_____	_____	_____
6. Store-level Miscellaneous and Overhead	_____	_____	_____

7. Corporate & Divisional Overhead

General Store Sales Information

Please specify below, the number of items sold over the year of 2012 and the total value of these items

To apportion total overhead costs, we need to know **TOTAL STORE SALES INFORMATION.**

Number of all items sold in 2012 _____
Value of all items sold in 2012 \$ _____

In the table below, please include white milk items only. Do not include chocolate milk, creams, juices, etc.

Containers	2012 Units Sold	2012 Sales Value
Plastic Gallon	_____	\$ _____
Plastic 3-quart	_____	_____
Plastic Half-gallon	_____	_____
Paper Half-gallon	_____	_____
Plastic Quart	_____	_____
Paper Quart	_____	_____
Other: Please describe _____	_____	_____
TOTAL	=====	=====

Land and Building Information

Information to be gathered is the annual cost of the real estate and associated costs. Thus, the taxes and insurance refer to the property, not sales tax or employee insurance.

Does the store own or lease the land?

If the land is leased, what is the annual lease payment?

Lease payment

If the land is owned, what was the price at the time of purchase and when was it purchased?

Value of land

Year of purchase

What is the annual parking lot repair and maintenance expense?

What is the annual parking lot cleaning and snow removal expense?

Are there other expenses associates with the land that we should also include?
Please describe:

What year was the building(s) constructed?

Year of construction

Does the store own or lease the building(s)?

If the building(s) are leased, what is the annual lease payment?

If the building(s) are owned, what was the purchase price at the time of purchase or construction?

Value of building(s)

What is the total square footage of the building?

What is the annual building repair and maintenance cost?

What are the annual costs associated with cleaning the store?

What is the annual cost associated with the building that we should also include?
Please describe:

What is the annual real estate expense associated with both land and building(s)?
(This value should not include sales tax or taxes associated with wages/salaries)

What is the annual insurance expense associated with both land and building(s)?
(This value should not include employee insurance)

Capital Equipment Information

Please feel free to involve your Engineer when completing this section!

Please estimate the following assuming you were replacing or buying new equipment at this store:

Type (Please specify)	Replacement Expense (with installment costs)	Expected Life (Years)
Walk-n Cooler(s) (containing your fluid milk)		
Display Coolers (for fluid milk)		
Compressor(s) (associated with fluid milk)		
Scanner and Register System (for entire store)		
Check-out Lanes (for entire store)		

Cost of Labor Information

Hourly wages for direct milk handling labor

Job Description	Hourly Wage	Fringe Benefits **
Receive and order	_____	_____
Stock dairy coolers	_____	_____
Clean dairy coolers	_____	_____

** Include fringe benefit percentage only if not included in hourly wage

Was vacation and sick time replacement included in calculating the above fringe benefit rate? Yes _____ No _____

Non-product specific management

Non-product specific management can be entered either as a total or itemized. Please use only one of the two options.

Option 1: Total non-product specific management = _____
 Amount in 2012 \$ _____

Option 2:

- Manager _____
- Assistant Manager(s) _____
- Front-end Manager _____
- Night Manager _____
- Office Manager _____
- Shift Leaders _____
- Other: _____
- Other: _____
- Other: _____

Sum cashier and bagger wages and enter below: _____
 Amount in 2012 \$ _____

Cashier(s) and bagger(s) wages _____

Front-end Costs

Front-end costs include any expenses incurred in the check-out section and bagging section of the store. Most of these costs have been elevated under the Salaries and Wages, and Capital Equipment sections of this questionnaire. Please list any costs other than those already reported.

Item:	Amount in 2012
Scanner and register supply costs	_____
Scanner and register maintenance costs	_____
Push carts (estimated)	_____
Store security	_____
Shopping bags	_____
Front-end management costs (if not included above)	_____
Other: _____	_____
Other: _____	_____

Electricity Usage and Expense

STORE

What was the store's consumption of electricity (measured in kWh) over one period?

_____ kWh

What was the cost per kWh?

_____ \$/kWh

How many weeks in that period?

_____ weeks

What portion of the store's total electricity consumption is allocated to store services electrical use?
(Store services electrical usage is the electrical usage which is used for general support of the store, i.e., the opening of electric doors, the store heating and cooling, and parking lot lighting, etc.)

_____ %

MILK COOLER

◆ Display Cooler ◆

What was the milk cooler's consumption of electricity (measured in kWh) over one period?

_____ kWh

What was the cost per kWh?

_____ \$/kWh

How many weeks in that period?

_____ weeks

What is the portion or % allocated to fluid milk?

_____ %

◆ Walk-in ◆

What was the milk cooler's consumption of electricity (measured in kWh) over one period?

_____ kWh

What was the cost per kWh?

_____ \$/kWh

How many weeks in that period?

_____ weeks

What is the portion or % allocated to fluid milk?

_____ %

Store Level Information

Item:	Amount in 2012
Communications	_____
Uncollected checks	_____
Garbage collection	_____
Water and sewer	_____
Fuel oil or gas	_____
Uniforms and laundry	_____
Non-product specific advertising *	_____
Store office supplies	_____
Store cleaning supplies **	_____
Donations (store level only)	_____
Employee training (store level)	_____
Travel costs	_____
Electronic data processing (store level only)	_____
Other:	_____

* As much as possible, we want only "generic store or company" advertisement. This would not include weekly newspaper flyers, for example, but would include radio advertisements which consisted primarily of "Shop at our Store" type messages.

** If not already included in the store cleaning costs listed on the Land and Building worksheet

Division and Corporate Information

Operational Overhead Costs

Please apportion Division and Corporate Operation Costs to the individual stores by using the store's portion of sales

Item:	Division	Corporate
Payroll	_____	_____
Payroll overhead	_____	_____
Education and training	_____	_____
Travel	_____	_____
Office: Lease, equipment, insurance, and repairs	_____	_____
Office: supplies, communications, and utilities	_____	_____
Purchased services	_____	_____
Donations and advertising	_____	_____
Customer awareness program	_____	_____
Electronic data processing	_____	_____
Direct store delivery feed	_____	_____
Unclassified items	_____	_____
Other:	_____	_____