

**Minutes of the
Marquette Food Co-op Board of Directors
February 16, 2016 Meeting**

Start time: Meeting was called to order by secretary P. Britton at 6:06 p.m.

Roll call: Phil Britton, Barbara Krause, Tom McKenzie, Cori Noordyk, Mike Potts, Emily Wright.

Absent: Brian Brady (excused), Brad Jackson (excused), Janna Lies (excused).

Staff: GM Matt Gougeon, Natasha Lantz, Kat Eaton, Evan Zimmerman.

Public: None.

II. Preliminaries:

Approval of Agenda & Additions: The agenda was reviewed. The Finance Committee Report was moved before IV.b. L5 – Financial Condition 4th Quarter.

Motion: To approve agenda with changes (*motion by* B. Krause, *second* M. Potts).

Action: Motion passed unanimously.

Review of January Minutes: The minutes were reviewed and no changes were made.

Motion: To approve the January minutes without changes (*motion by* E. Wright, *second* B. Krause).

Action: Motion passed unanimously.

Electronic Communications: There was electronic correspondence pertaining to the Ends 3 blog, which will be discussed later in the agenda.

III. First Public Comment: Evan Zimmerman shared updates from the Grow Team. The team would like to talk with the Board as they enter the implementation phase. The Board discussed having the Communications Committee meet with the team to discuss ideas.

IV. GM Monitoring

(a) Store Report (M. Gougeon): The GM reported that sales thus far have been pretty good. January sales were 4% over last January's sales. Thus far in February, the MFC is on pace to hit 7-8% growth over last February. The MFC is averaging \$23,000 per day in sales. The GM reported that co-ops are being asked to participate in a pilot program for the Double Up Food Bucks program, which previously allowed SNAP benefits card holders to get double value benefits for fresh produce only at farmers markets. The pilot program would make the MFC the only grocery store in the area that will have this benefit available. The MFC has not yet submitted its application but intends to do so. The Board inquired about data related to SNAP benefits purchases. The GM reported that EBT purchases over the course of the year are over \$200,000. The Board commented that this could help change the perception that the MFC is too expensive. The GM noted that Natasha Lantz and her involvement with the Fair Foods Network have been helpful in this effort. The GM reported that he anticipates hitting labor goals for the year. Labor is holding steady on number of hours worked, and the MFC is on track to getting labor costs down to 20% even in light of the big changes to benefits that have been made. The GM reported that he has been nominated for an at-large position on the NCG's national board of

directors. The GM submitted his application and shared that this is a critical time for cooperatives nationwide. He commented that the MFC is being recognized for its growth during a time when many co-ops are facing challenges. The GM has also been invited to participate in NCG Brainstorming Meetings to brainstorm ways co-ops can encourage community investment and is looking forward to having the MFC's voice at the national table. The GM stressed the importance of having Board members attend the CCMA conference this year. It will be held June 9-11 at the University of Massachusetts. The GM would like to attend along with two Board members and 2 staff members. The MFC will cover the cost of attendance. The GM also stressed the importance of board development. He explained that the Board is losing two of its most experienced members and will have three new members this year. He suggested that CBLD would be very valuable by providing finance training, monthly calls with a consultant, and assistance with board reporting. The Board discussed that this is something the Education Committee could lead. The GM explained that this is a critical time for coops and the stakes are high right now.

(b) Finance Committee Report (B. Krause): The committee met last Tuesday and discussed December financial statement. Cash is short and is being monitored daily. Due to an extra payment to UNFI and payroll last week there was a potential need to draw on the line of credit but it was not needed. Ratios have not changed much. Labor expenses are at 21% and benefits are expected to increase this year. Depreciation was not final in the financial statements. Turnover is good. Member shares are up to 26%. The store paid down \$25,000 in debt. The MFC is looking at ways to reduce expenses, such as reducing trash pickup and cutting back on advertising.

(c) L5 – Financial Condition 4th Quarter (M. Gougeon): The Board received the report prior to the meeting and came prepared to act. The Board determined that the report demonstrated compliance.

Interpretation Reasonable: Yes.

Adequate Data: Yes.

The report was accepted as in compliance except for L5.6.

The Board inquired about whether membership will be notified that there will not be an annual patronage dividend. The GM commented that this is only the second year that a patronage dividend was not recommended. Staff will be well educated in answering member questions and it will probably be addressed at the Annual Meeting.

The GM reviewed the Key Financial Indicators spreadsheet and explained that sales flattened but are now increasing. The gross margin is steady. Labor is coming down but is expected to change since benefits will be changing per the Affordable Care Act. The GM explained that EBITDA was huge in the 4th quarter of 2014 and struggled during the middle quarters of 2015 as the store was being fully outfitted, but recovered in the 4th quarter. Days cash on hand has dwindled but likely bottomed out. He commented that the MFC reports regularly to NCG and lenders about its financial condition so there is a lot of accountability. Inventory turns are very good. The current ratio is a little low. Member shares are growing steadily. The MFC cashed in shares in January so the ratio should improve. The GM explained that the ratio is based on the MFC's debt from loans, which started at \$3.5 million, and equity, which is comprised of member shares, preferred

shares, retained earnings, and net income. He explained that the debt decreases much more slowly. The MFC cashed in \$85,000 in preferred shares, which reduces debt and increases equity so the ratio should go from 10.5 to 7. The Board inquired about restructuring debt and the GM explained that the lower interest rates will make a difference in cash flow. The MFC is also continuing to look into PACE financing.

(d) G8 – Vice President’s Role (P. Britton): No changes were recommended.

V. Second Public Comment Period: Evan Zimmerman shared that he looked up some information pertaining to the Board’s inquiry about how many people qualify for SNAP benefits in the region. He reported that 12,000 people in Marquette County are under the poverty line. It was discussed that this would mean there is potentially \$6 million in Marquette County available through EBT.

Natasha Lantz asked the Board if the reordering of the Ends Policies could be discussed since it will have a big impact on the MFC’s marketing materials. The Board discussed that the Ends are all equal so there should be leeway in reordering them and they do not need to be numbered but can be a bulleted list. The Board discussed that they are also open to having the Ends presented as a web instead of a list.

Motion: To give the MFC’s marketing department freedom to reorder the Ends Policies as needed and remove the numbers. (*motion by E. Wright, second M. Potts*).

Action: Motion passed unanimously.

VI. Break.

VII. Outreach Reports

(a) Outreach Report (N. Lantz): Lantz reported that the MFC is representing NCG at the MOSES Conference next Wednesday through Sunday. Angeli’s in Menominee placed an order on the online marketplace. Neil and MFC Produce Manager, Sarah, toured an aquaponics facility that is using fish to grow hydroponic produce. Grow and Promo Teams have stopped meeting and Lantz is distilling all of the recommendations into a marketing plan that will be rolled out on April 1. Staff have a major investment in this plan and all of the Grow Team members will have a sneak peak of the plan on March 17. The plan will be shared with all staff on March 21. Grow Team members are being invited to continue meeting as an advisory group. Lantz commented that there are incredibly talented and forward thinking people that work at the MFC. The Annual Meeting will be on March 18. Board members are asked to arrive at 5pm and wear their nametags. There will be a Middle Eastern theme for the event. The meeting will be held across the hall at 7pm. Four people are running for three open seats. Voting will take place March 4-14. There will be flyers at the registers, information in the newsletter and online, an email blast, and posters in the store.

(b). UP Food Exchange Report (N. Lantz): Lantz reported that the MFC is partnering with “Taste the Local Difference” which is now becoming a statewide business. They offer a wide range of professional marketing materials that have already been developed, and retailers can purchase a license to use the materials. Lantz explained that the MFC will be partnering with Taste the Local Difference and will be handing over the UP Farm Directory to them since it has become a

much larger project as it has grown over the years and the cost of printing has gone up. Lantz explained that it will add a level of professionalism and greater exposure through the statewide publication and app, and will also include more local businesses such as breweries and wineries that were not previously included.

VIII. Board Monitoring & Discussion

(a) Committee Reports:

(i) GM Evaluation (J. Lies, B. Brady, and T. McKenzie.): Did not meet.

(ii) Finance Committee (B. Krause, J. Lies, and B. Brady): Report given earlier in agenda.

(iii) Communications Committee (P. Britton, E. Wright, B. Jackson, and C. Noordyk): Did not meet.

(iv) Elections/Nominations/Orientation: Met to discuss the election and orientation process and discussed overlap with the Education Committee. Moving into the future, the Board should identify strengths and weaknesses to make sure the Board is not without financial and legal expertise. The committee discussed orientation and the idea of recruiting former Board members to help recruit new Board members.

(v) Board Education (B. Jackson, C. Noordyk, P. Britton, B. Krause): Met and discussed that the Board should do a self assessment to review skills and level of comfort with topics like finance, PR, legal, strategic planning, food industry, food policy, and technology. The committee would also like to create an application process for Board members to apply for funds to use for relevant training.

(b) Ends Survey and Blog Review:

(i) Ends 3 Blog (B. Brady): B. Brady will write the Ends 3 Blog and will submit a draft by the end of the week.

(ii) Ends 1 Survey Review: It was discussed that there was not a lot of data and not a lot of website traffic at this time.

(c) Certify Membership: Board Secretary P. Britton will meet with Chris Peacock to certify membership before the March meeting.

(d) Set Annual Patronage: The GM does not recommend a patronage dividend this year.

IX. Third Public Comment: The Board inquired about the total amount raised for United Way through the round-up at the register program. Lantz and Eaton reported that \$2,500 was raised. The Board discussed potential agenda changes for future agendas and noted that Board members should be prepared to make a decision about whether they can attend CCMA at the next meeting.

X. Closings

(a) March Assignments:

i. Store Report (M. Gougeon)

- ii. Outreach Reports (N. Lantz)
- iii. G11 – Treasurer’s Role (M. Potts)
- iv. L4 – Membership (L. Gougeon)
- v. L10 – Board Logistical Support (M. Gougeon)
- vi. Board Elections
- vii. Ends 4 Blog Draft (B. Krause)
- viii. Ends 2 Survey
- ix. Begin CCMA Planning

XI. Motion to adjourn at 8:28p.m. (*motion by B. Krause, second P. Britton*).
Action: Motion passed unanimously.

Next Board Meeting: March 15, 2016 at 6:00 p.m.

Emily Weddle
Board Recorder

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: L5 – FINANCIAL CONDITIONS AND ACTIVITIES

Reporting Period: October 1, 2015- December 31, 2015

I report compliance with all parts of this policy. Policy interpretations are unchanged since last quarter review. Supporting data and statements have changed in the Global policy and policies L5.2, L5.3, L5.5, L5.6, L5.7, and L5.8. Changes are highlighted in yellow.

I certify that the information contained in this report is true to the best of my knowledge given the information available to me.

Signed: Matthew L. Gougeon _____, General Manager

Date: February 16, 2016

Unless otherwise indicated, all data is taken from the 4th quarter of 2015.

With respect to the actual, ongoing financial condition and activities, the General Manager will not cause or allow the development of fiscal jeopardy or material deviation of actual expenditures from board priorities established in the ends policies.

Interpretation/Operational Definition: The General Manager will ensure appropriate cash flow to pay daily bills, refrain from incurring debt other than trade payables or other reasonable and customary liabilities related to daily operations, and actively work toward the development of a financial contingency plan should one become necessary. All related financial decisions must be guided by the concepts of the Global Ends Policies surrounding open access to local, organic, wholesome, and fairly traded products; support for local suppliers; and education for everyone about food and related issues.

Data: The Statement of Cash Flows as of December 31, 2015 shows a decrease of cash of (\$614,356.00). This decrease in cash is representative of proceeds from our operations, construction loans, sales of equity shares, and sales of preferred shares and the ensuing expenditure of those funds during the expansion project. No new debt was incurred in the 4th quarter of 2015. Note that \$400,000.00 of this decrease is attributed to the expenditure of MEDC Community Revitalization Program grant funds. All other daily payables and liabilities remained customary to regular operational requirements.

The GM Will Not:

L5.1 Incur debt other than trade payables or other reasonable and customary liabilities incurred in the ordinary course of doing business.

Interpretation/Operational Definition: The General Manager will not place the Co-op in fiscal jeopardy through abuse of his power as the cooperative's agent regarding large capital expenditures, unreasonable loans, etc.

Data: Our current customary liabilities fall within normal operating procedures as shown in our quarterly financial statement. The liabilities are not changed from the previous quarter but exhibit updated figures to the Notes Payable to Range Bank, NCDF (now renamed Shared Capital Cooperative), and NI. On December 20, 2013, with Board knowledge and consent, we entered into construction and equipment loans with Range Bank, Northern Initiatives, and Northcountry Cooperative Development Fund in the amount totaling of \$3,456,800.00. All of these funds are dispersed to the project by Range Bank, Marquette County Title Company, or the NCDF. Our Commercial Mortgage with Range Bank on our buildings was retired and subsumed by the commercial construction loan closed on December 20th of 2013. At the end of 2015 our long term liabilities totaled \$2,984,445.00.

L5.2 Use restricted funds for any purpose other than that required by the restriction.

Interpretation/Operational Definition: There are currently no longer any identified restricted funds until such time as MFC management and Board determine specific restricted funds.

Data: N/A

L5.3 Fail to settle contracts, payroll, loans or other financial obligations in other than a timely manner.

Interpretation/Operational Definition: The General Manager will fulfill all financial obligations in addition to COGS and daily expenses and will not incur late charges.

Data: Financial obligations outside of COGS and operating expenses are the Notes Payable with Range Bank, Shared Capital Cooperative (NCDF), and NI and payroll. Principal and interest payments to Range Bank, Shared Capital Cooperative (NCDF), and NI have been made on time. The 4th quarter payroll has been met in a timely manner. (See statement from Shared Capital Cooperative (NCDF) dated 12/31/2015) The 4th quarter payroll has been met in a timely manner. (See attached Electronic Federal Tax Payments Systems (EFTPS) reports. The "Settlement Date" on this report corresponds to our pay date.)

L5.4 Allow tax payments and other government-ordered payments or filings to be overdue or inaccurately filed.

Interpretation/Operational Definition: The General Manager will ensure that all tax and government ordered payments are made on time, filed accurately and have resulted in no late notifications or assessment of penalties.

Data: All federal tax payments, federal withholding, social security/medicare (FICA), and federal unemployment (FUTA), are paid electronically through the Electronic Federal Tax Payments System (EFTPS) and followed up with paper quarterly returns prepared by our accountant, signed by the General Manager and filed by their due date. Monthly Michigan Sales, Use, & Withholding returns and State Unemployment Agency quarterly tax reports are completed by our accountant and signed by the GM, paid, and filed by us. Our 2014 Federal Corporate Tax return was completed and filed before its due date of September 15, 2015. Our Michigan Business Tax return is completed and filed. Our 2015 Federal Corporate tax return and Michigan Business tax return are due September 15 2016. (see EFTPS deposit report) (See attached filing schedule from Thompson & Thompson, P.C. and copies of all returns and check stubs for the 4th quarter of 2015)

L5.5 Enter into real property lease agreements without board approval.

Interpretation/Operational Definition: The General Manager will seek board approval before entering into any real property lease agreements. Additionally the GM will apprise of, make recommendation to, and seek counsel of the board prior to the MFC entering any real property leases.

Data: We no longer have any real property leases.

L5.6 Fail to meet the following objectives unless otherwise established by a board-approved document:

- A. Maintain sufficient liquidity to pay bills in a timely manner. Current Ratio should not fall below 2:1.**
- B. Maintain sales and net income at levels sufficient to support store operations and annual objectives.**

Interpretation/Operational Definition: The General Manager shall meet these objectives, unless by otherwise written board directive, to maintain a healthy ratio between ability to pay debt and payables and prevent creditors from exerting undue influence over the membership and this business while maintaining modest profitability.

Data: A: Current ratio as of December 31, 2015: \$442,346.00/\$391,224.00 or 1.13:1 B: As of December 31, 2015 sales have increased at a rate of 17.0% over the same period last year and there is a -5% net profit.

L5.7 Fail to make recommendations and rationale to the board regarding patronage dividend at the February meeting of the board.

Interpretation/Operational Definition: The General Manager will provide the board of directors with his recommendation and rationale regarding a patronage rebate for owners of our cooperative at the February board meeting each year.

Data: See attached recommendations. See also a quick glossary of terms at bottom of this page.

L5.8 Allow financial record keeping systems to be unchecked by a certified public accountant, outside audit or other qualified third party.

Interpretation/Operational Definition: The General Manager will ensure that record keeping is adequate to provide the accountant the information that he needs to prepare our monthly and quarterly financial statements.

Data: Pat Thompson, our accountant, reviews financial documentation provided by Finance Manager, Kat Eaton, before preparing all financial reports. The Board has not requested third party review in this reporting period.

Quick Glossary for Patronage Dividend recommendations:

Patronage means sales attributed to our members.

Qualified Notices, means net profit dollars attributed to our members and set aside in “their name” to be returned to them- now or later- in cash or improvements to operations.

**Marquette Food Co-op
Patronage Rebate Recommendation and Rationale 2013**

Patronage Dividend in a simple explanation is returning to members a percentage of corporate income attributed only to member purchases. Income attributed to members is allocated to the members by the board and paid to members based upon their contribution

to the profit of the Co-op. Through prudent allocation, Patronage Dividend can provide a means of reducing corporate tax liability, strengthening member ties to the cooperative, and ensuring the longevity of the operations of the Co-op.

I present only one recommendation to the board regarding Patronage Dividend.

Given the fact that there was the expected significant net loss following expansion in 2015, I do not recommend a Patronage Dividend for the year 2015