

**Minutes of the  
Marquette Food Co-op Board of Directors  
May 25, 2016 Meeting**

**Start time:** Meeting was called to order by president Tom McKenzie at 6:05 p.m.

**Roll call:** Brian Brady, Phil Britton, Brad Jackson, Barbara Krause, Janna Lies, Tom McKenzie, Mike Potts, Emily Wright.

**Absent:** Cori Noordyk (excused).

**Staff:** GM Matt Gougeon, Natasha Lantz, Kelly Cantway.

**Public:** Rick Kochis, John Kinch.

**II. Preliminaries:**

(a) Approval of Agenda & Additions: No changes were made.

*Motion:* To approve agenda without changes (*motion by P. Britton, second E. Wright*).

*Action:* Motion passed unanimously.

(b) Review of April Minutes: No changes were made.

*Motion:* To approve the April minutes without changes (*motion by B. Krause, second J. Lies*).

*Action:* Motion passed unanimously.

(c) Electronic Communications: Board communicated about scheduling May meeting.

**III. First Public Comment:** None.

**IV. GM Monitoring**

(a) L5 – Financial Condition 1<sup>st</sup> Quarter (M. Gougeon): The Board received the report and determined that the report demonstrated compliance. There were no questions.

*Interpretation Reasonable:* Yes.

*Adequate Data:* Yes.

*The report was accepted as in compliance.*

GM explained that cash remains an issue and is being monitored closely. The plan to get current on accounts payable is in progress. The current ratio is under 1.00, but the GM would like to get it up to 1.25. The GM reported that there was a sizeable loss in the first quarter, however April financial statements show a net profit. Terms are being negotiated for two of the MFC's higher interest rate loans. Year to date growth is at 5.4% but the GM would like to see 8% growth as the year goes on. The GM reported that cash is lean but sales are growing slowly. Sales per labor hour is moving in the right direction. The GM reported that the store should see improvement at the end of the second quarter.

(b) Store Report (M. Gougeon): GM and N. Lantz attended the NCG Central Corridor meeting. GM reported that news from NCG is grim for co-ops. Half of NCG stores have negative sales growth and competition in the marketplaces is endangering the consumer cooperative economy. NCG stores are being encouraged to be better operators. The MFC has developed a pretty significant change management plan from the operational strategic plan. Staff have been very engaged through the Grow Teams. The MFC is developing a pricing and purchasing strategy in

an effort to change price perception and increase value of margin dollars by increasing volume, better understanding of product that sells well and doesn't sell well in the store, and emphasizing "local" as a point of differentiation. There is more collaboration with local farmers. The store is also building excitement and building consistency. The Merchandiser is a new role being filled internally that will work with managers to make sure promotional products are ordered and will coordinate promotional displays and direct resets. The MFC is utilizing tools from the NCG to aid in pricing strategy and data from the POS system to make purchasing decisions. The GM reported that since the last meeting the number of employees has decreased from 97 to 84. It is the time of year when the store loses some employees who move on after graduation, and the store is not filling these empty positions. In order to reach SPLH goals, the store needs to increase sales and reduce labor costs. The Board discussed scenarios for how this could be achieved and commented on the significance of customer service and the MFC working toward being a model workplace. The GM reported that the MFC is purchasing new HR management software to improve efficiencies and better meet the store's needs. Kelly Cantway reported about the new software. She explained that as a retail store there is a high turnover rate at the MFC, which previously required 70% of her time to maintain several different spreadsheets and databases with employee information. The new software will be more efficient and will allow HR to spend more time on bigger picture thinking which will be important as the store prepares to face new competition in the marketplace. The GM reported that the Meat Department and Prepared Foods Department, which were previously managed by a single manager, will now each have their own dedicated manager.

The GM brought to the Board's attention the idea of consolidation, which has been floated by the NCG as a potential strategy for strengthening co-ops in the face of competition. He stressed that the MFC is not currently participating in any mergers but wanted the Board to be aware that conversations about consolidation are happening at the national level. The NCG has 150 member stores. The idea being floated is that if these stores consolidated into nine regional co-ops they might be better able to compete with large competitors that have the advantages of efficiency of scale, centralization, and bigger buying power. The GM commented that a merger of Michigan co-ops would mean a greater opportunity to build robust regional food systems while bringing greater efficiency and tremendously increased buying power. The Board discussed the idea and it was stressed that the MFC is not currently participating in any mergers. Member of the public, John Kinch, commented about mergers and acquisitions in the nonprofit sector and offered to share information with the Board and GM.

(c) GM Evaluation of the Board (M. Gougeon): GM provided a written report and commented that the Board has made big improvements in the areas that needed work last year. GM commented that the Board has greatly increased communication with the membership and has improved in strategic planning after the adoption of new Ends Policies. GM suggested that the Board consider committee work to formalize Executive Limitation Policy review.

## **V. Outreach Reports**

(a) Outreach Report (N. Lantz): Lantz reported that the Grow Teams have been very influential. The store is promoting items "made in the co-op kitchen" with stickers on items in the store. Educational materials are being consolidated and a lot of content will be available online. The newsletter, which has been very costly to put together and print is moving to an email newsletter called the "Fresh Feed." There will be a "co-op yearbook" annually that will include the Annual Report and major news from the MFC. The 5-2 Plan is being rolled out for a year-long offering

starting on June 1. Member contact info will be updated at the registers starting on June 1, which will help the MFC better engage owners. Planning for Co-op Month in October is underway and it will be big this year. There will be a “Co-op Corner” at the front of the store that will have information, demos, opportunities for engagement, etc. The MFC logo is being updated. A lot of thought is going into this process. The store’s logo is being refreshed so that it will be more functional and timeless. The store has also developed a tagline, “Rooted in values,” which will be adaptable for marketing and promotions. The store is also working on developing messaging through prominent signage in the store.

(b) UP Food Exchange Report (N. Lantz): Work is underway for the “Together at the Farm” event, which will be held on July 30. The MFC received a grant to cover the cost of Group GAP training for three staff members, so there are now three internal auditors.

The Board inquired about the logo refresh, and it was discussed that a lot of thought and consideration is going into this process.

**VI. Second Public Comment Period:** Rick Kochis inquired about cooperation between departments. The GM explained that there is a lot of cooperation between departments at the MFC. The Board inquired about the “Arts Business Honor Roll Award” awarded to the MFC and congratulated the GM. The GM explained that the MFC received this award from MACC for the store’s support of the arts through events like “Acoustic Cafe,” its support of the culinary arts through its cooking classes, in-store poetry, and hosting the “Little Poetry Library.”

## **VII. Break**

## **VIII. Board Monitoring & Discussion**

### (b) 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): B. Krause and Board member at large Rick Kochis met with GM to review April financials. Methods for tracking inventory were discussed. The Committee reported that they reviewed Key Financial Indicators including labor expenses and have asked that the budgeted amounts be included on the KFI sheet. The Committee reported that the first quarter showed a loss, but April had a profit of \$14,000. Debt to equity is high. The current ratio is not in a good position and will continue to be monitored. The Committee reviewed all the bills that are due. There has been a \$40,000 improvement on past dues. The Committee reported that the MFC is moving in the right direction.

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

(iv) Elections/Nominations/Orientation: Did not meet. The Board discussed that incoming Board member Jamie Acox is not going to be able to serve. The President contacted the remaining candidate, however he is not currently interested in serving. The Board discussed that the vacancy will need to be filled by appointing someone to serve until the next election. Everyone was encouraged to consider potential applicants.

(v) Board Education (B. Jackson, C. Noordyk, P. Britton, B. Krause): Committee was in contact with Mike Mallow from the Keweenaw Co-op who is interested in having their board meet with the MFC Board. A June 12 meeting was proposed, however only one Board member would be able to attend so the Board is considering alternate dates.

(c) Ends Survey and Blog Review:

(i) Ends 6 Blog Draft (J. Lies): J. Lies will email draft to Board for review.

(ii) Ends Survey Review: Emails are coming through and will be compiled.

(d) Set Board Calendar: Postponed to June agenda.

(e) Assign Monitoring: June assignments were set as follows:

Blog 7 “Environmental Stewardship” (E. Wright)

D2 – GM Accountability (M. Potts)

Remaining Board Monitoring assignments will shift to the left. T. McKenzie, B. Brady, and J. Lies will be filled by incoming Board members.

**X. Third Public Comment:** Board Recorder requested confirmation as to whether the discussion pertaining to the idea of consolidation was to be recorded publicly in the minutes. The Board responded that it was discussed during public session and should be included in the minutes. The Board stressed that it is just an idea for discussion.

## **XI. Closings**

(a) June Assignments:

- i. Store Report (M. Gougeon)
- ii. Outreach Reports (N. Lantz)
- iii. Officer Elections
- iv. Form Ad Hoc Committees
- v. CCMA
- vi. D2 – GM Accountability (M. Potts)
- vii. L6 – Budgeting & Financial Planning (M. Gougeon)
- viii. Update Directory
- ix. Set Retreat Date
- x. Set Board Calendar & Assign Monitoring
- xi. Ends Blog 7 “Environmental Stewardship” (E. Wright)
- xii. Ends Blog Review

**XII. Motion to adjourn at 8:44p.m.** (*motion by B. Krause, second B. Jackson*).

*Action: Motion passed unanimously.*

**Next Board Meeting: June 21, 2016 at 6:00 p.m.**

Emily Weddle  
Board Recorder

**POLICY TYPE:** EXECUTIVE LIMITATIONS

**POLICY TITLE:** L5 – FINANCIAL CONDITIONS AND ACTIVITIES

**Reporting Period:** January 1, 2016- March 31, 2016

**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: May 23, 2016

**Unless otherwise indicated, all data is taken from the 1st quarter of 2016.**

***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 March 31, 2016 shows an increase of cash of 10,524.53. This increase in cash is representative of proceeds from our operations, sales of equity shares and principal and interest payments on construction loans. No new debt was incurred in the 1st quarter of 2016. 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 long term liabilities from the previous quarter are reduced and exhibit updated figures to the Notes Payable to Range Bank, Shared Capital Cooperative (formerly NCDF), and NI. On December 20, 2013, with Board knowledge and consent, we entered into construction and equipment loans with Range Bank, Northern Initiatives, and Shared Capital Cooperative (formerly Northcountry Cooperative Development Fund) in the amount totaling of \$3,456,800.00. All of these funds were 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 20<sup>th</sup> of 2013. The reduction in notes payable to NCDF and Northern Initiatives attributed to MEDC grant funds used to pay down debt. New terms are being negotiated on remaining debt. In January of 2016, \$85,000.00 of preferred shares that were held in escrow at Range Bank was used to reduce the amount debt with Shared Capital Cooperative (NCDF) and NI. \$50,745.00 was paid to Shared Capital (NCDF) on Note B and \$34,255.00 was paid to NI on Note 2. . In March, an additional \$1,000.00 of preferred share funds was applied to Shared Capital debt. The transactions increased equity on the balance sheet by \$86,000 while decreasing our long term liabilities. At the end of 2015 our long term liabilities totaled \$2,861,290.00.

#### **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, NCDF, and NI and payroll. Principal and interest payments to Range Bank, Shared Capital Cooperative (NCDF) and NI have been made on time. The 1<sup>st</sup> 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 2015 Federal Corporate Tax return has been extended and is due September 15, 2015. Our Michigan Business Tax return has also been extended.** ( see EFTPS deposit report) (See attached filing schedule from Thompson & Thompson, P.C. and copies of all returns and check stubs for the 1st quarter of 2016)

**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 March 31, 2016: \$438,836.86/\$467,953.05 or **.94:1** B: As of March 31, 2016 sales have increased at a rate of **4.3%** over the same period last year and there is a **-4.88%** net profit.

**Note:** *EBITDA has decreased to less than 1% as of end of first quarter. This provides an alternative picture of first quarter position.*

**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:** **N/A.**

**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 last review of our financial statements happened in 2013,** per the requirements set forth by the State of Michigan relative to our securities offering.