

**Minutes of the
Marquette Food Co-op Board of Directors
November 15, 2016 Meeting**

Start time: Meeting was called to order by president Phil Britton at 6:05 p.m.

Roll call: Phil Britton, C. Noordyk, E. Wright, B. Krause, M. Augustyn, B. Jackson, R. Kochis, M. Potts, G. Sarka.

Absent: None.

Staff: GM Matt Gougeon, Kat Eaton, Kelly Cantway, Evan Zimmerman, Mary Moe.

Public: Brian Brady.

II. Preliminaries:

(a) Approval of Agenda & Additions: The GM noted that Sarah Monte was unable to attend the meeting so she provided a written Outreach Report.

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

Action: Motion passed unanimously.

III. Consent Agenda: The Board reviewed the following items prior to the meeting and had no questions or items raised for discussion.

(a) Approval of October Minutes

(b) Electronic Communications

(c) L5 – Financial Condition 3rd Quarter (M. Gougeon)

(d) L9 – GM Succession (M. Gougeon)

(e) G5 – Committee Principles (G. Sarka)

(f) D1 – Unity of Control (C. Noordyk)

Motion: To approve consent agenda as stands (*motion by* R. Kochis, *second* E. Wright).

Action: Motion passed unanimously.

IV. Public Comment Period: The Board thanked the public for attending.

V. GM Monitoring

(a) Store Report (M. Gougeon): The GM reported that sales are strong compared to last year. This was the seventh month in a row the MFC crested \$700,000 in sales. Equity dollars are coming in, however they decreased by 44% due to October 2015 being the month the 5/2 Plan was launched. There were 393 equity transactions in October 2015 and 813 equity transactions this October. Member shares were discussed. The GM reported that HR has conducted the annual staff survey. The GM noted there have been a lot of changes in the past year, so he is especially interested in staff satisfaction results. There was an 80% response rate from staff and results are being compiled. The GM reported that Buyers and Promotion meetings are occurring bi-weekly. Buyers meetings bring together everyone that makes purchases and have been very productive so far. Meetings educate staff on concepts like shrink, inventory turns, etc. Bridgit Derrel is running Promotion meetings, which are working toward a systematic approach to promotions, enacting the Marketing Plan, and promotional calendar. On December 8 the store will be rolling out its first attempt at standardizing product promotion. The GM also reported that the MFC received a check for \$20,743 for water damage expenses.

(b) NCG Audit Report (M. Gougeon): GM offered to address any questions concerning the audit report and noted that it was a one-day visit looking at financial and operational aspects at the MFC. He reported that essentially everything within the financial reporting aspect of the audit has been addressed. The third quarter financial statement largely reflects the recommended changes that were made to financial reporting, moving from income tax basis to GAAP. The Board inquired about whether the audit will be done annually, and the GM explained that it was conducted as a member benefit of NCG. They initially wanted to audit the store prior to expansion but agreed it would be better to wait until after expansion. Operations is monitoring out-of-stocks metrics. The store has moved from 158 items out-of-stock down to 88. This shows marked improvement. The GM reported that the auditors recommended getting a third truck from UNFI, and the opportunity is being discussed. Issues concerning purchasing and cash flows in relation to the potential change are being considered. There was discussion about shrink in the audit report. The store is putting systems in place to better assess and monitor shrink. Prepared foods menu planning will be ready for the first quarter of 2017. The GM reported that Prepared Foods is making great progress. Labor costs are down, although it is the highest labor department in the store. Sales are up by about 24% over last year. Reduced priced items were discussed. The store is working on balancing production and buying practices to reduce the amount of reduced priced items. The Board discussed the availability of reduced price items. It was explained that the auditors were focused on the MFC's brand, which is trust, and that selling items that are close to past due or of lesser quality has the potential to diminish trust and diminish the store's brand. The Board commented that the meat counter has looked great since the audit. The GM noted that Clayton Lesatz is working really hard in that department. As part of the financial reporting portion of the NCG audit, a financial review is going to be conducted for 2016. It is now an NCG standard that a review be done annually. The auditors recommended a full audit for 2017, which the Finance Committee noted is significantly more costly. Paul Nardi is suggesting that the audit may be more useful to the MFC in 2018. A third party service will count end of year inventory and Paul Nardi will monitor that process.

VI. Outreach Reports

(a, b) Outreach Report/UP Food Exchange Report (S. Monte): The Board took time to read the written report provided by Sarah Monte. The Board inquired about staff reimbursement for travel to conferences. The round up at the register campaign for the United Way was discussed. The Board inquired about Eco-Tribe, which the GM explained is an internal sustainability group. The Board discussed possibly opting out of receiving hard copies of written reports during meetings to reduce waste. The Board discussed the Co-op Newsletter deadline. The Board will follow up with Sarah Monte concerning the possibility of a meet the buyer event with Cherry Capital Foods. The GM commented that Sarah is transitioning in her new role and she's doing very well.

VII. Second Public Comment Period: Former Board vice president Brian Brady commented that it is great to see young blood and two past presidents on the current board.

VIII. Board Monitoring & Discussion

(a) Committee Reports:

(i) Finance Committee (B. Krause, P. Britton, G. Sarka, R. Kochis): Met prior to the meeting. The committee reported that they talked at length about sales per labor hour, which has decreased somewhat and is on track moving forward. The committee also discussed the NCG audit and changes to get reporting in compliance with GAAP. GM

pointed out that he did present a plan for accumulating cash in April, but the auditors did not see it. The committee discussed having Paul Nardi do a review for 2016 and that he suggest an audit in 2018 and having a third party do inventory. It was discussed that while an audit would be beneficial, a cost-benefit should be considered since it would be costly. It was noted that there may be some Outreach/UPFE activities and expenses that may move to other organizations since they are no longer MFC responsibilities. Paul Nardi will meet with Finance Committee to discuss options for audit.

(ii) Communications Committee (C. Noordyk, M. Augustyn, E. Wright, B. Jackson): Has not met. Will work on content for newsletter and details for January retreat.

(iii) Elections/Nominations (C. Noordyk, M. Potts, G. Sarka, E. Wright): Committee did not meet. G. Sarka and C. Noordyk will be running for reelection. It was noted that they are both on the Election/Nominations Committee. The Board discussed whether this is a conflict of interest. They will continue to serve on the committee but will not vote if there is a conflict of interest. B. Jackson and E. Wright will not be running for reelection. One of the open seats will be a two-year term. The decision concerning who will have the two-year term will be made by the Elections/Nominations Committee.

(iv) Board Education & Orientation (B. Jackson, M. Potts, M. Augustyn): Did not meet. The Board discussed an article the GM sent to the Board and talked about expectations for the future since co-ops are in a period of decline but the MFC continues to see growth. GM shared information about Cooperative Board Leadership Development and encouraged the Board to explore opportunities. Participation in the program includes access to tools and education pertaining to policy governance. The GM mentioned that a policy governance consultant not affiliated with CDS will be in town for a meeting with another group during the scheduled Board retreat. The Board is interested in having the consultant review policy governance during the retreat. The GM will follow up.

IX. Third Public Comment: None.

X. GM Evaluation (P. Britton, C. Noordyk, R. Kochis):

Motion: To move into closed session at 7:23 p.m. (*motion by C. Noordyk, second E. Wright*).

Action: Motion passed unanimously.

Motion: To move back into open session at 7:45 p.m. (*motion by R. Kochis, second E. Wright*).

Action: Motion passed unanimously.

XI. Closings

(a) December Assignments:

- i. Store Report (M. Gougeon)
- ii. Outreach Reports (S. Monte)
- iii. BOD Candidate Nomination Period Ends
- iv. Consent Agenda:
 - i. Approval of November Minutes
 - ii. G6 – Governance Investment (E. Wright)
 - iii. L6 – Budgeting and Financial Planning (M. Gougeon)

X. Motion to adjourn at 7:47 p.m. (*motion by R. Kochis, second C. Noordyk*).
Action: Motion passed unanimously.

Next Board Meeting: December 20, 2016 at 6:00 p.m.

Emily Weddle
Board Recorder

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: L5 – FINANCIAL CONDITIONS AND ACTIVITIES

Reporting Period: July 1, 2016- September 30, 2016

I report compliance with all parts of this policy **except L5.6**. 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: November 15, 2016

Unless otherwise indicated, all data is taken from the 3rd 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.

Data: The Statement of Cash Flows as of September 30, 2016 shows an increase of cash of 17,170.76. This increase in cash is representative of proceeds from our operations, sales of equity shares and interest payments on construction loans. No new debt was incurred in the 3rd quarter of 2016. Daily payables and liabilities remained customary to regular operational requirements. See Statement of Cash Flows. Note: EBITDA, which is an alternative method of viewing operational cash flow, for the period was a healthy 7%, or \$161,476.00.

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 20th of 2013. New terms are being negotiated on remaining debt to Shared Capital and NI. 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 and NI. \$50,745.00 was paid to Shared Capital 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 the 3rd quarter of 2016 our long term liabilities totaled \$2,798,999.00 representing a \$220,846.00 decrease from the same period last year. See *Balance Sheet*. Note: As of this writing we are 4 months into a 6 month period of interest only payments on our notes with Range Bank.

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. NOTE: During the 3rd quarter we have been making interest only payments to Range Bank. The 3rd 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 filed. Our Michigan Business Tax return has also been filed.** (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 September 30, 2016: \$457,335.00/\$469,803.00 or .97:1 B: As of September 30, 2016 sales have increased at a rate of 9% over the same period last year and there is a 2.74% net profit.

Note: EBITDA has increased to 7% as of end of the 3rd quarter. This provides an alternative picture of the 3rd quarter cash position showing operating cash minus depreciation and interest.

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. Contact and planning for a Review of FY2016 with Paul Nardi of Makela, Toutant, Hill, and Nardi, PC is underway.

POLICY TYPE: EXECUTIVE LIMITATIONS
POLICY TITLE: L9 – General Manager Succession

Reporting Period: November 15, 2016

I report compliance with this policy.

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

Signed: _____, General Manager

Date: _____

In order to protect the Board from sudden loss of GM services, the General Manager will have no fewer than two other managers sufficiently familiar with the Board and GM issues and processes to enable either to take over with reasonable proficiency as an interim successor.

Interpretation/Operational Definition: In the event of his sudden departure, the General Manager will name and train two managers to effectively execute the essential functions of the GM job. Further, the General Manager will regularly report to the chosen managers' summary communications with the board.

Data: GM Successors: Kelly Cantway, Kat Eaton, and Mary Moe
Additional Administrative Team Members: Evan Zimmermann, Kim Sheridan, Sarah Monte

Note: Kelly Cantway is our HR Director, however she has the most experience of senior staff. She has served in three staff positions before working in management in the store as Outreach Director, Front End manager, and her current role. Additionally she has been counsel to me, reported directly to the board at board meetings, and been instrumental in re-shaping our organization post expansion. In my opinion, she could solidly serve as interim GM in the event of my sudden departure. Kat Eaton is our Finance Manager and has grown in her role in the last two years to more than adequately serve as finance counsel to the board and management of the store. Mary Moe, our Operations Manager can competently direct the activities of the floor of the store to prevent any disruption to serving member and customer need. This team of Managers would act in concert to operate the store. Store and personnel policy is currently strong enough to be a framework upon which daily operations may continue uninterrupted. Additionally, the entire administrative staff, meets at regular bi-weekly intervals. This group in its entirety ensures the full functioning of the store and includes the above mentioned managers as well as Outreach Director, Sarah Monte, IT Director, Evan Zimmermann, and POS Coordinator, Kim Sheridan.