

**Minutes of the
Marquette Food Co-op Board of Directors
February 21, 2017 Meeting**

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

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

Absent: None.

Staff: GM Matt Gougeon, Kat Eaton, Clayton Lesatz, Sarah Monte, Evan Zimmerman.

Public: Hilary Bush.

II. Preliminaries:

(a) Approval of Agenda & Additions: The agenda was reviewed and no changes were made.

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

Action: Motion passed unanimously.

GM noted that Auditor Pat Thompson will not be presenting a report at this meeting but will be present at the March meeting.

III. Consent Agenda:

(a) Approval of January Minutes without changes

(b) Electronic Communications

(c) G8 – Vice President’s Role (M. Potts)

Motion: To approve consent agenda without changes (*motion by E. Wright, second R. Kochis*).

Action: Motion passed unanimously.

IV. Public Comment Period: Hilary Bush introduced herself as a Board candidate.

V. GM Monitoring

(a) Store Report (M. Gougeon): GM reported that although sales were slow at the beginning of January, they ended up at 4% over last January. February sales are doing well. GM provided a written report of comments and suggestions from Paul Nardi who observed the inventory process. The GM reported that moving forward there will be a third party count twice a year. The Board inquired about having the count done twice a year instead of once per year. The GM explained that it will help the store check and balance its inventory. The GM reported that operations are focusing on customer service. The Board commented that they have noticed improved customer service in the store. GM reported on changes that are underway in the bulk foods and bakery departments. GM reported that he went to Traverse City last week with Great Lakes Food Coops and discussed observations from his visit to Oryana Food Coop. He explained that Oryana will be facing competition from a Lucky’s and Costco that will be opening in their area. GM shared similarities and differences, and challenges and competition were discussed. GM commented that he feels that the MFC is doing well to prepare for future competition. The GM reported that the Great Lakes group has decided to suspend all conversations about consolidation at this time.

Evan Zimmerman reported to the Board about technology at the MFC. He reported that he wants technology to be used in a way that benefits the community and helps the MFC better organize

information and communicate with shoppers. He discussed the evolving role of IT in co-ops and that authentic interaction is an important part of the MFC, even as things become more digital. Zimmerman reported that the MFC is about to launch a dedicated report server, which is a custom solution for analyzing information in the store. Evan shared about AI and future retail technology. The potential for online ordering was discussed. Zimmerman reported that the online election response has been very fast this year, with over 200 people registered and voting in the first three days. Voting is open until the 7th.

The Board took a five-minute break.

(b) L5 – Financial Condition 4th Quarter (M. Gougeon): Board received the report and came prepared to act.

Interpretation Reasonable: Yes.

Adequate Data: Yes.

The report was accepted in compliance except L5.6.

GM provided a financial summary. Board inquired about whether there are any anticipated large capital expenditures, and GM responded that he does not anticipate any in the near future. GM reported that the store became more productive over the course of the year. At the end of the year there was a 2.8% loss but trajectory of losses shows an over 60% improvement in the bottom line. GM showed graphs of sales growth and gross margin, labor, member shares, debt to equity, inventory turns, EBITDA, and net income. Trends and observations from the graphs were discussed by the Board. The accelerated depreciation schedule was discussed. The GM pointed out that net income showed a nice uptick in the third quarter of 2016 and a loss in the fourth quarter but is still heading in the right direction. Board inquired about Key Financial Indicators benchmarks, which the GM explained are from NCG. COGS, personnel expenses, and accounts payable were reviewed. Expenses were discussed. Total expenses range between \$800,000 and \$900,000.

(c) Annual Ends Report (M. Gougeon): The Board received the report prior to the meeting and discussed highlights and accomplishments of the MFC in working toward the Global Ends. The Board inquired about whether there were plans to promote the report in the community. Sarah noted that it is used for the Annual Report that is circulated at the Annual Meeting and events throughout the year and that key parts from the Ends Report will be relevant to various press releases throughout the year. The Board discussed challenge of promoting all the good things the Co-op does in the community.

The Board received the report prior to the meeting and came prepared to act.

Interpretation Reasonable: Yes.

Adequate Data: Yes.

The report was accepted in compliance.

(d) Auditor Presents Annual Report to Board (M. Gougeon): Postponed to next meeting.

(e) Set Annual Patronage: The GM is not recommending any annual patronage this year. The Board discussed how this will be communicated to the members. It was discussed that this

decision is made annually and a patronage dividend is not expected until the store begins to show a profit.

Motion: Motion to accept the GM's recommendation (*motion by* B. Krause, *second* G. Sarka).

Action: Motion passed unanimously.

VI. Outreach Reports

(a, b) Outreach Report/UP Food Exchange Report (S. Monte): Monte reported that the United Way campaign goal has been reached. Classes at the MFC are ongoing, and private classes and demos are picking up with local organizations. The MFC will be hiring a part time position to help with classes. Monte shared about the Cultivate Michigan advisory group and their interest in how the MFC supports grower and buyer relationships. The Fresh Feed newsletter deadline was discussed. The Board noted that cooking classes seem to be an area of growth, and Monte discussed some of the public and private classes and how they reach new demographics.

VII. Second Public Comment Period: None.

VIII. Board Monitoring & Discussion

(a) Committee Reports:

(i) GM Evaluation (P. Britton, C. Noordyk, R. Kochis): Did not meet.

(ii) Finance Committee (B. Cromell, P. Britton, G. Sarka, R. Kochis): Met prior to the Board meeting. Discussed quarterly updates to send to preferred share holders, which would include condensed financial statements. The Committee discussed a schedule for when preferred share holders could expect their dividends, and noted that the MFC needs to determine at what point preferred share payments should be prioritized. Finance Committee discussed sales, accrued time off, and cost savings measures.

(iii) Communications Committee (C. Noordyk, M. Augustyn, E. Wright, B. Jackson): Committee proposed planning quarterly events with the Board and a summer party with MFC owners. Ideas for events included a day of service. The Committee proposed having an interactive activity at the Annual Meeting to invite members to share ideas for how they would like to see the MFC work toward its Global Ends. The newsletter was also discussed as a means to communicate with owners prior to the event to encourage them to participate.

(iv) Elections & Nominations (C. Noordyk, M. Potts, G. Sarka, E. Wright): No report.

(v) Board Education & Orientation (B. Jackson, M. Potts, M. Augustyn): The Board received a report from the Retreat facilitator. The Committee discussed having a meeting to further discuss the report and identify work that can be addressed at the Board level and work that will be done at the committee level.

(b) Retreat Debrief (P. Britton): The facilitator noted there are three types of boards: fiduciary, strategic, and generative. It was discussed that the Board should consider these categories while planning how it will organize its work as a board. Board President noted that he is happy with the Board's momentum and direction following the retreat. A subcommittee will meet to work on developing a plan for how the Board will act on the report from the retreat. This subcommittee will be open to the entire Board.

IX. Third Public Comment: None.

X. Closings

(a) March Assignments:

- i. Store Report (M. Gougeon)
- ii. Outreach Reports (S. Monte)
- iii. Annual Membership Meeting
- iv. Board Elections
- v. Begin CCMA Planning
- vi. Consent Agenda:
 1. Approval of February Minutes
 2. G11 – Treasurer’s Role (B. Cromell)
 3. L10 – Board Logistical Support (M. Gougeon)

It was noted that the CCMA Conference will be held in Minneapolis from June 9-11, 2017.

X. Motion to adjourn at 8:33p.m. (*motion by C. Noordyk, second B. Krause*).

Action: Motion passed unanimously.

Next Board Meeting: March 21, 2017 at 6:00 p.m.

Emily Weddle
Board Recorder

POLICY TYPE: EXECUTIVE LIMITATIONS

POLICY TITLE: L5 – FINANCIAL CONDITIONS AND ACTIVITIES

Reporting Period: October 1, 2016- December 31, 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: February 21, 2017

Unless otherwise indicated, all data is taken from the 4th 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 December 31, 2016 shows an increase of cash of 35,568.00. 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 4th 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 2.3%, or \$47,311.00.

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 4th quarter of 2016 our long term liabilities totaled \$2,796,286.00 representing a \$188,159.00 decrease from the same period last year. See Balance Sheet. Note: As of this writing we are finished with 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 4th quarter we have been making interest only payments to Range Bank. The 4th quarter payroll has been met in a timely manner.** (See attached Electronic Federal Tax Payments Systems (EFTPS) reports.

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 4th 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 December 31, 2016: \$463,546.00/\$471,879.00 or **.98:1** B: As of December 31, 2016 sales have increased at a rate of **6.4%** over the same period last year and there is a **-2.8%** net profit for the quarter.

Note: *EBITDA 2.3% as of end of the 4th quarter. This provides an alternative picture of the 4th 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.