

**Minutes of the
Marquette Food Co-op Board of Directors
October 17, 2017 Meeting**

Start time: Meeting was called to order by vice president Cori Noordyk at 6:07 p.m.

Roll call: M. Augustyn, H. Bush, B. Cromell, R. Kochis, C. Morgan, C. Noordyk, G. Sarka, C. Thompson.

Absent: P. Britton (excused).

Staff: GM Matt Gougeon, Kelly Cantway, Sarah Monte, Evan Zimmerman, Clayton Lesatz.

Public: Chris Peacock, Kathy Leoni

II. Preliminaries:

(a) Approval of Agenda & Additions: Outreach Reports will be moved to follow first public comment period. Discussion of electronic communication was removed from consent agenda.

Motion: To approve agenda with changes (*motion by* G. Sarka, *second* C. Thompson).

Action: *Motion passed unanimously.*

III. Consent Agenda: Electronic Communications removed from consent agenda for further discussion.

(a) Approval of September Minutes without changes

(b) G4 – Board Code of Conduct (C. Morgan)

(c) L7 – Asset Protection (M. Gougeon)

Motion: To approve consent agenda with changes (*motion by* B. Crommel, *second* C. Morgan).

Action: *Motion passed unanimously.*

IV. Public Comment Period: Christopher Peacock introduced himself as former employee. Kathy Leoni introduced herself as MFC owner and former board member who works with Northern Initiatives.

V. Outreach Reports

(a) Outreach Report (S. Monte): Monte reminded the Board to check the Co-op Month bagging schedule that was provided. Monte reported on demos at farmer's market and positive feedback from farmers. Monte commented about the MFC's Community Fund and reported on Co-op Month activities, promotions, and increase in owners. The Board previewed TV commercials.

(b) UP Food Exchange Report (S. Monte): Monte reported that the agricultural education website that MSU North Farm is working on is moving forward. Four schools so far are participating in school fundraising. Monte participated in meeting with MI Farm to Institution Network.

VI. Board Education: P. Britton and C. Morgan met to plan future Board Education efforts. Velodrome has been invited to speak to the Board next month. G. Sarka introduced this month's speaker, Kathy Leoni from Northern Initiatives whose experience is in small business lending. She discussed what lenders are looking for and reviewed the Five Cs of Credit: Capacity to repay, Character, Conditions, Capital, and Collateral. Leoni noted that lenders look at whether the MFC is meeting its projections and commented that the GM provides very good, regular financial

information. Open discussion was held about financial statements and evaluating how the MFC is performing according to plan. Leoni discussed the MFC's interest only payments, noting that it is an increased expense for the MFC. The Board's role in decision-making concerning loans was also discussed. Discussion was held about the current ratio metric. Leoni inquired whether the Board has a plan for a capital raise. The Board reported that they did offer a second raise and that the Board has to begin making decisions concerning repaying preferred shares. The Board's visionary role was also discussed. Leoni noted that an expansion project of this size is amazing in our community and commented that there are always challenges with business growth, so it is important to manage what can be managed and stay proactive.

VII. GM Monitoring

(a) Store Report (M. Gougeon): GM reported that sales continue to be strong. Month to date sales are 10.5% over the same period last year. Third quarter is always the strongest quarter. YTD profit is a preliminary 1% as of the third quarter. Board was provided a daily department sales report. GM reported that the livable wage has been implemented and costs came in a bit higher than expected due to higher hours associated with turnover and additional staff in training. Kelly Cantway reported on open enrollment for staff benefits. Kelly noted that there have been fifty new employees this year. MFC held informational meetings for open enrollment. New plan year starts November 1. GM commented that the MFC hopes that the livable wage will help reduce staff turnover. Membership continues to see strong growth. Year to date there is a 20% increase in equity dollars. GM reported that the deflationary period in food is coming to an end. Share prices for large grocers and wholesalers are down year to date. GM reported that it is believed to be due to Amazon's purchase of Whole Foods. Dramatic industry changes were discussed including e-commerce and grocery delivery. GM noted that the MFC has an advantage in being small and member owned.

VIII. Second Public Comment Period: Chris Peacock inquired about ownership equity and what current legislation is for investors in businesses like the MFC. GM reported that there is a \$10,000 individual cap. GM referenced the MILE (Michigan Invests Locally Exemption) Act for more information.

IX. Board Monitoring & Discussion

(a) Committee Reports:

(i) GM Evaluation (P. Britton, R. Kochis, C. Noordyk, C. Thompson): Will meet following the Board meeting.

(ii) Finance Committee (B. Cromell, P. Britton, R. Kochis, H. Bush, G. Sarka, C. Thompson): Met prior to the Board meeting and discussed the financial review that is underway. Cash has been building. Current ratio is increasing. It was noted that Kathy Leoni did point out that the current ratio is not a true current ratio, but the Committee commented that it is trending in the right direction. September looked good although not as strong as July and August. MFC hit \$2.5 million in sales. Payroll costs are increasing with implementation of livable wage.

(iii) Communications Committee (C. Noordyk, C. Morgan, M. Augustyn, H. Bush): Did not meet but will meet next month.

(iv) Elections & Nominations (B. Cromell, M. Augustyn, H. Bush): Did not meet but is challenging each Board member to talk to at least one potential candidate.

(v) Board Education & Orientation (C. Morgan, G. Sarka, M. Augustyn, P. Britton): Met to discuss focusing more on the GM perspective and how the Board can be more supportive to the GM. Committee is working with the community to make connections for future Board education.

(b) Board Budget Finalized: GM will provide information to Finance Committee for discussion at next committee meeting.

(c) Begin 3 month opening for Board nominations: Elections and Nominations Committee was reminded to review the calendar for upcoming activities.

X. Third Public Comment: None.

XI. Electronic Communications: Board discussed Slack and whether it is functioning to save time for the Board. Evan noted that Slack can be set up with email integration which might streamline communications for Board members that prefer corresponding via email. Further discussion will be held.

XII. Closings

(a) November Assignments:

- i. Store Report (M. Gougeon)
- ii. Outreach Reports (S. Monte)
- iii. Nomination Committee to meet with potential candidates
- iv. GM Evaluation
- v. Board Budget Finalized (Finance Committee)
- vi. Consent Agenda:
 1. Approval of October Minutes
 2. Electronic Communications
 3. G5 – Committee Principles (C. Noordyk)
 4. D1 – Unity of Control (H. Bush)
 5. L5 – Financial Condition 3rd Quarter (M. Gougeon)
 6. L9 – GM Succession (M. Gougeon)

G4 was raised for discussion. It was discussed that meetings are open to the public and not confidential, but closed session discussions are to be considered confidential.

XII. Motion to adjourn at 7:46 p.m. (*motion by G. Sarka, second C. Morgan*).

Action: Motion passed unanimously.

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

Emily Weddle
Board Recorder

Monitoring Report

Policy Type: Executive Limitations

Policy Title: L7- Asset Protection

Reporting Period: October 17, 2017

I report compliance with all parts of this policy.

Global: *The General Manager will not cause or allow the cooperative's assets to be unprotected, inadequately maintained or unnecessarily risked.*

Interpretation- The General Manager shall keep safe the assets of the co-op through mechanisms that prevent the unnecessary loss or depletion of those assets. The assets of this co-op include the physical plant of operations, employees, inventory, directors of the board, all generated records and data (electronic or otherwise), retained and operating capital, and the co-op's reputation in the community.

The GM will not:

L7.1: *Fail to insure adequately against theft and casualty losses and against liability losses to board members, staff, and the cooperative itself.*

Interpretation- The GM shall have in place sufficient insurance against loss of property, product, life and limb of staff and others in our organization, and to keep safe from liable all board members, individual staff, and the co-op corporate entity.

- **Data:** All necessary and customary insurance is held by the MFC regarding property and people. Broadly, our umbrella of insurance includes general liability on employees and customers (\$1M), commercial liability on product and equipment (\$2M), liquor liability (\$1M), Directors and Officers liability (\$2M), Cyber Liability (\$1M), and Workmans Comp (\$500K per accident).

- **Note:** Our Workmans Comp annual premium has decreased this year. Below is a concise history of our premium and the steady reduction in our "Experience Modification" figure. The E-Mod is the metric by which our comp premiums are determined. It has been in steady decline because of our efforts at promoting and systematizing safety in our workplace.

- **Work Comp Historical Premium:**

- o 2014 – Annual premium of roughly \$18k with \$1Mill in payroll.
- o 2017 – Annual premium of roughly \$14k with \$1.8Mill in payroll

- **Work Comp E-Mod Factor Historical:**

- 2009 = 1.30
- 2010 = 1.19
- 2011 = 1.15
- 2012 = 0.93
- 2013 = 0.87
- 2014 = 1.00
- 2015 = 1.00
- 2016 = 0.99
- 2017 = 0.77

See data packet for insurance coverage summary provided by VAST Solutions.

L7.2: Fail to protect data, intellectual property, information or files.

Interpretation- The GM will provide secure systems for off-site back-up of all electronic data and information, ensure that necessary security and encryption is adequate, and keep all physical proprietary or confidential information and files restricted.

Data: The MFC contracts with Compudyne, our region's largest provider of remote & on-site IT services, network consulting, hardware/software installation and high speed business Internet services. Our store has two servers to facilitate store operations and store data. One server for our network and another for the Point Of Sale System. Compudyne automatically backs up our network data-base, including promotional data, to a cloud based server. **Our POS server, formerly under back-up arrangements with Compudyne, is currently backed up by our POS vendor, ECRS at less cost.** All of our POS terminals, both servers, and networking equipment are connected to battery back-ups. In the case of a power outage the POS batteries will run for more than an hour giving us plenty of time to finish transactions and shut the system down under our control if necessary. *See data packet for Compudyne Edge Service Executive Summary and service summary.*

As of October 1, 2015 liability for protection against credit card data breaches moved from banks to business. We have gone to great length to comply with PCI requirements and are a local leader in cyber security for small business. All of our card readers are now chip readers. **Further, we have installed ECRS's One Touch fingerprint reading technology. One Touch allows for stored customer payment card data to be retrieved through fingerprint recognition thereby removing the need for customers who choose this system to swipe their payment card at all. Customers may also choose secure wireless payments with Apple Pay, Android Pay, and other new wireless payment technologies. All these secure payment methods are available at all registers.**

All proprietary and confidential paper files are kept in locked files. Although we have the ability to digitize and electronically store these files, in the last reporting period we have not had the capacity to do so. Paper documents are kept in locked storage. Financial records are accessible

only to Kat Eaton, our finance manager, and the GM. Quickbooks is accessible to Kat Eaton, Bea Steeland, and the GM. We retain policies, procedures, and practices recommended in a cyber security audit in 2015 which are reviewed and updated annually. (See *MFC Cyber Policy Manual*)

Personnel files are locked and accessible to HR, the GM and any staff (their own file only, by appointment, and witnessed by HR or the GM).

L7.3: *Receive, process, or disburse funds under controls insufficient to meet the board appointed auditor's standard.*

Interpretation- All cash handling, accounts receivable, and accounts payable shall meet the standards of a board appointed third party inspection of procedures and "chain of possession" in handling all incoming and outgoing funds.

Data: Our cash handling and accounts payable and receivable systems all adhere to basic chain of possession protocols. Meaning that the chronological steps in handling cash are done in a manner by which there is second person witness and written evidence balanced against POS reporting before bank deposits are made by a third party. Security cameras are positioned to monitor all cash registers and the cash office. Payables are delivered to the finance manager after product and deliveries are received, checked, and entered into our POS database. Receivables are few and typically invoices written for services rendered. Cash disbursements (payables) are made through the approval of the finance manager and GM. The finance manager does not have check signing authority. I recommend that within the next reporting period that we have third party inspection via "Agreed Upon Procedures" to verify the efficacy of our cash handling procedures through an audit of our Bank Account Reconciliations, Cash Register Controls and Daily Balancing/Deposit, and Cash Disbursements.

See Daily Cash Audit Procedure document.

L7.4 *Unnecessarily expose the cooperative, the board or the staff to claims of liability.*

Interpretation- The GM shall restrict the activities of the MFC to selling groceries and fulfilling the board appointed ends within the limitations set forth in board adopted policies.

Data: Monthly Monitoring Reports.

L7.5 *Subject plant and equipment to improper wear and tear or insufficient maintenance.*

Interpretation- The GM will prevent abuse and neglect of the store and equipment through regular maintenance of the store and all equipment according to manufacturer's specifications.

Data: Small repair and maintenance, maintaining adequate supply of cleaning materials, light bulbs, etc, are handled by our Facilities person, Doug Raish. He keeps a regular schedule of maintaining the store and grounds of the MFC. This includes changing or cleaning various filters in our gray water systems and HVAC., cleaning refrigeration evaporators and coils, and light repair. *(See Doug's list)* The store is cleaned by Spiffy Clean (Dan and Sherry Gaudreau) six nights per week.

Trudell Plumbing comes twice per year to maintain filters in our roof top HVAC units and kitchen hood system. Excell Fire Protection comes annually to test our fire suppression system. Lammi Fire Protection comes annually to test our kitchen hood fire protection system and update our inventory of fire extinguishers. When equipment malfunctions do happen, we have standing arrangements with John's Refrigeration, Red Electric, Trudell Plumbing, JRJ Kitchen Equipment, and Tamarack Builders.

L7.6 *Allow purchasing to be uncontrolled or subject to conflicts of interest.*

Interpretation- The GM shall control the non COGS purchases of the MFC to meet the constraints of store and department budgets and shall follow a purchase order procedure where any purchase is subject to the discretion of the GM.

Data: All non COGS purchases are limited by dept. budgets or qualified need. **Qualified need** means a proposal from a department to either the Operations Manager or GM for equipment, non-ordinary supplies, or equipment/fixture improvements to facilitate increased sales in that department. Routine or regular purchases receive initial approval by department managers and are reviewed by Operations Manager periodically or the GM during regular financial review. When purchases are anticipated, purchase orders are filled out and given to the GM for verification of need, budget reference, and final signature approval (or not). All purchases are tracked through Quickbooks. *(See sample POs and Budget to Actuals)*

L7.7 *Invest or hold operating capital in insecure or non-investment grade instruments, or in non-interest bearing accounts except where necessary to facilitate ease in operational transactions.*

Interpretation- The GM shall hold operating capital in secure investment instruments and financial institutions.

Data: The MFC holds operating capital in Range Bank and mBank. *See data packet for bank statements.*

L7.8 *Endanger the cooperative's public image, credibility, or its ability to accomplish Ends.*

Interpretation- The GM shall protect and promote the public's trust in the MFC's image as a viable business, purveyor of wholesome foods, and community asset.

Data: Our continued growth in business and membership is evidence of promoting and protecting the public trust. We are, or have been, successfully partnered with MSUE, MDARD, City of Marquette, County of Marquette, Chocolay Township, Marquette Township, the Sault Tribe, local schools, local vendors, small farms, and many other agencies like U.P. state universities and the Center For Regional Food Systems, and the Marquette Chamber of Commerce. We are integral to the Good Food Charter of Michigan and have representation within Michigan Food and Farming Systems. We have been selected by the Fair Food Network to be the only U.P. grocery store to run the Double Up Food Bucks program. We are frequently in the news media for our programming and services as well as for our "collective" knowledge of food and related issues. We have also embarked on a fairly ambitious marketing campaign in television, radio, and digital media. *See data packet for advertising samples.*