

Board of Directors Meeting
Monday, September 16, 2019
6:06pm open | 9:08pm adjourn

Call to Order & Check-in

6:06pm (GL)

Directors: Suzanne Keers, George Langford, Sendy Soto, Ally Young, Celeste Levitz-Jones, Sean Shatto, Norma Samame (late). Absent: Rebecca Reynolds, Brian Perea.

Owners: Gretchen Johnson (scribe), Sharon Hoyer, Dave Lynn, Nancy McClelland (accountant)

Staff: Rob Curtis, Ally Young.

Consent Agenda

6:17pm, Decision (GL)

- Filed August board meeting minutes
- Accepted GMED Committee report from CLJ
- Accepted Owner Linkage Committee report from SSh
- Accepted revised D2 report on Accountability of the GM from SSo & SK
- Accepted D3 report on Delegation to the GM from SK
- Accepted August operations report from AY
- Approved new owners and share repurchases

AY notes that D3 report is excellent, would like to see board follow up on suggested action for debrief conversation on a future agenda or during a retreat.

Meeting Agenda

6:19pm, Decision (GL)

SSh asks about B2, AY clarifies that the item is related to financial planning and budgeting, meant to discuss Discuss FY19-20 budget, loan refinancing, capital campaign timeline

SK would like to add 10min to discuss Global Climate Strike. Approved.

Owner Comments

6:22pm, Listening (GL)

SSh: Emails from owners, did anyone respond? Potential role within owner linkage committee?

AY: I think GL is the only one who should speak on behalf of the board, he could be delegate it to OLC

GL will respond.

Policy Monitoring: BI, Financial Condition

6:24pm, Decision (SS)

Report accepted as showing global non-compliance.

BI.I: Data sufficient, out of compliance

AY: Thanks to Nancy for her help wrangling data.

N: Thanks to Ally! Files were a total mess, should not have been as hard it was to find information.

SSh: Want to capture the things that need to be improved: Interpretation sufficient, all information pulled through for

AY: Only interpretation that differs from global indicator, we were reviewing this against our peers, which makes no sense

N: One of the files we found that was out of order was last year's budget, indicators were incorrect

NS: Seen prior budgets? Last year was an anomaly?

N: Offered to do a lot of things, was declined. Last GM and treasurer at the time focused on keeping accounting costs down. Offered to do a lot of things (budgets, hiring screening, etc.) and turned down. Offered to come teach the board how to interpret financial reports, told that I come as an owner and not an accountant and that I would not be paid for my time. Some people have been hired from within that just didn't have the background.

GL: To respond, we're going through a transformation, reinvention. It's important to reset our relationship with you, important to have you as an outside helper.

N: I worry about how things have been represented in either direction: "the accountant is working on that" - but there is a work plan in place, you have to reports in place by the 10th. I also don't know what exactly the board was saying about financial

SSh: Budget could be pulled from the finance committee to check in with you, could propose that

N: Get budget into QuickBooks! It was a mess, will generate reports, I can teach MG how to do that.

AY: This is an important relationship to maintain.

N: One thing that I was surprised by: jump from last year's actual sales to this year's would have required 41% growth, business plan listed 18% growth, how did that happen?

AY: Budget was attached to business plan that didn't match it, and that was presented last year. Business plan didn't change, used pro forma.

N: Has to be a better way to report to you guys so you know what you're reporting against, especially to evaluate the GM..different question about how to fix that. Hard to see whether this is compliant or not compliant.

GL: Mechanically we need additional systems to make sure our budget ties out, having a talented set of eyes to look at that is important. Will discuss internally but I propose a process of escalation where you have a series of contacts to voice your concerns to. Counting on you not to stop until you'll feel like you've actually been heard by someone.

SSh: Still monitoring, but a lot of substantive steps! Should vote to determine whether data is sufficient...

SK: Budgeted sales 7 million, that's from business plan. 4% below budget is against 7 million, but somewhere else it's different?

AY: I'm saying the difference between the 17-18 actuals versus 18-19 budget, that would be a 41% jump.

SK: Still not sure...

AY: It's not real information, 18% growth over sales from last year, not possible. We are below adequate sales, we didn't do enough in sales.

N: Important point made in following paragraph - there are 5 different ways we think this was being affected - one of those was a purposeful understatement of sales. For the purpose of this

GL: That number was 80?

N: That was just an extrapolation, worst case scenario that's what it could be. For the purposes of this, it's not compliant.

Data sufficient, out of compliance - all in agreement.

SSh: Plan forward is to work with a new GM, focus in store, increasing basket size and decreasing out of stocks.

AY: Do you think the path to compliance is acceptable, did not include timeline. Could say this plan is inadequate so that there is something to work on.

SSh: Something that is lacking here but is true is to have better safety measures in place.

AY: Does not affect this at all.

NS: Re plan toward improvement - there are certain goals we want Italia to meet, this should be reflected in whatever 6 - or 3 month plan we have for her. This is grave enough that we can't allow too much time to elapse. When we go back to global compliance, we should mention that we are all required to attend some sort of financial workshop because there

SSo: Possible to get a certified report?

N: Have to read my footnotes!

SSo: But legit, reviewed by you

N: Every single month - financial reports are submitted by me every month. The question is, do you guys know how to interpret them?

SSo: Have we been getting the notes in the packet?

AY: Review BI quarterly

GL: This is a great wake up call - respond to NS, not sure it makes sense for IGM team to come up with path to compliance for new GM, could determine short term path to compliance

AY: That was the approach that I was reporting under, board could say that's cool, needs to be clearly communicated to Italia that plan/timeline doesn't look like this. Need to tell her this is important

CLJ: Yes we need real numbers, and she shouldn't have to do the work that

AY: Global plan is we have hired a new GM

GL: Response to Sendy, have to look at info we're receiving, clear on expectation, here's the document - if foot notes are not what we want, we have to figure out

N: To cross-reference, what I submit is what IGM has said they want

SSo: You mentioned earlier you hadn't seen some documents, to say that this relates to your jurisdiction but it will be presented as part of a report

CLJ: Even if we have your written words, it can be misrepresented

AY: For example, this was reported as compliant because the numbers. Where's the third party review?

N: Right you can't tell from this what's missing, a GM can pick and choose what to show. Ally said to take into account policy. Important to know what you're not seeing.

CLJ: Interesting and important to see all info, we need a lot of context.

SK: As board we have authority to monitor this report any way we want, could ask accountant to do whole report and monitor GM against that, not required to have GM complete report. Should consider, at least for a while, some external validation and help to make sure we're looking at the right things, pretty messed up right now.

N: Italia's background?

SK: One of the areas we're most concerned about is financial management, one area she will get a lot of help

GL: Time check in, over time - what should we do, can add additional time to end

SSh: Most important to capture tasks going forward, any issues people with interpretations or data and log those. Could take 5 minutes instead of another 20.

GL: Sufficient?

AY: Would like to figure out how to add 20 minutes to go through the rest of this

CLJ: Don't need that much time for transition discussion, this is important for that.

GL: Could cut 15 minutes from leadership transition, 15 from financial planning. 20 more minutes added.

SSh: B1.2 Interpretation?

N: Should be spending hours looking at this, not 20 minutes. Net income - overall bottom line, everything that comes in, everything that goes out. BITDAP pulls out things that you don't have any control over. Interest, taxes, patronage. BITDAP is a much more important number to look at over time than net income is. Amazing how good BITDAP is compared to net income. I'm asking why is it such a pleasant surprise? Something wrong with your plan?

AY: Owner discounts don't look right.

N: Been brought up to GM, she said it's fine. This happened with cash register balance, part of the reason MS quit when he did. What to do when GM says concerns are unfounded? My guess is owner discounts were never taken into sales income in the first place, my guess is sales is really understated by this dollar amount.

SK: I don't know if we can say data is adequate because we don't know if numbers are right.

SSh: Interpretation is correct, data is incorrect.

N: Could still report compliance because we'll still be close to plan. And that income is still a real number, where are the numbers are

SSo: Your suggestion?

N: IMO interpretation is correct, data is adequate, in compliance.

SSh: Data has flaws but is sufficient. Want to have confidence that numbers are accurate.

SSo: What could we ask for to give us confidence?

N: Hard to say, key performance indicators need to make the most sense. Once we pick KPIs, here's the calculation we need to do on a monthly basis and track that over time. One thing that has been off for a long time is margins, you should be looking at a chart that says here is what percentages are, when they're going up and down drastically, that tells a story. Charts that show things in terms of a percentage of sales or margins...

SSo: It would be helpful for us to build, these are the forms and data points we need to see, and we can run that by you (N)

N: I have a great form that I shared with Ally, it says here are numbers, here's what this tells you, compares it against past trends.

SSo: Maybe there are some nonnegotiables moving forward

AY: Underlying pattern here is we can not cut our way to success, have to spend money on staff, products, etc to make money

NS: This reminds of what I didn't like in our reports last year - saving money on staff does not excuse low sales

SSh: BI.2: Despite flaws in data, it is sufficient, it is in compliance? Concern GL?

GL: Relatively pregnant pause each time we ask question about compliance...do we feel less prepared? Would we feel comfortable with approving all of this as shown? Are we spending right amount of time on this?

N: What is goal here? To understand the numbers and ask deep hard questions so you know people running the business are doing it correctly? If you just give a thumbs up, aren't you phoning it in?

GL: Yes, I am asking whether we have created the environment where people can ask, I want to check in from a process standpoint. Sometimes we create a momentum, do we want to keep doing it the way we're doing?

SSh: Very beneficial to pull out points

SK: It's great and it feels good to talk about this, but will we be any better next time

CLJ: I did come prepared, it will make a difference to have this information, being able to ask a professional questions

SSh: Do we want to add more time, is there a more efficient way to get to the heart of what we're doing?

AY: There was narrative energy that went into writing this report, the remaining time should be used for questions we came with. I agree with George, the outcome will not change. This is a great learning time for the board that we want

N: You're killing me, you've got to spend the time on this. Maybe board meetings aren't place to do that, maybe a financial literacy meeting. You guys have a fiduciary responsibility, you are in so much trouble if this place fails, you know that right? Plus we all like this place! I'm not trying to be insulting, but it seems like there is not enough time or energy - maybe board meeting is not the time or place for this discussion.

CLJ: This has happened before, there are a handful of policies that we know that 30 minutes is not enough time. There is some pressure to get through it, not talk it out and discuss some concerns.

NS: Two suggestions: I agree with N's statement, this is probably not the place for a tutorial for all of this. I do want to go through for minutes and formality's sake to go through interpretation etc. However I do think we need to be savvier especially since incoming GM is not experienced in this. I do like suggestion of having a monthly tutorial - even taking eyes off for a quarter too much time has lapsed.

N: When we send out monthly financials and notes, can I send to everyone instead of just treasurer/secretary? All in agreement.

AY: Because this does have to be monitored during this meeting - do we move on or add more time?

SSo: Maybe we meet at entirely different time and date?

N: Some are really straightforward, let's just spend the time

GL: I was going to suggest something similar. Report itself is fine, but any questions you have about the finances of the coop, this might be a good time. I suggest we accept report, then move into a questions section. I'm concerned about those things but the process isn't really going to get to those things. Maybe people have concerns about the interpretation but they don't know what those issues are yet.

CLJ: Interpretations are great, data is great, but there is a lot of stuff I would like more context on.

SSo: Have to leave at 8

AY: I would say accept report as written, 10 more minutes to flag concerns

SSh: Acceptable data, findings are accurate

GL: Findings support outcome

SSh: Good as is, go back through

N: BI.3 Surprised to find that CCLF does not mandate liquidity ratios, I would want to see agreement. You might have been out of compliance for some time.

AY: Also never been reported or thought to ask question.

SK: Way to find out?

SSh: In board packet, we signed it.

AY: Sean will forward agreement to board.

N: Like measures of liquidity they just need to be defined, Ally included those in reports. Board should ask what is a quick ratio, why it is important. These numbers are of concern but they're cash related not operations related.

SK: What about money we thought we were putting away? Path forward?

N: Never told that.

SSh: Been told that for a year and a half.

AY: Yes we've put some aside, will make it up.

SK: Renegotiation?

AY: If we look at cash flow now, backing down MS's non-budget, moving forward if we make this 150000 principal payment in April 2020 we run out of cash 4 quarters later if we stick to that budget. We thought we could produce a budget that was conservative. Could we back to CCLF and renegotiate that, do they need 150000 right then? Kick it out a bit further?

SSo: You sound positive they'll do it

AY: It's in their interest to do it

N: It's not uncommon to ask, you're moving forward in other ways, and you're not saying we can't you're just asking for different terms

Ssh:

AY: There's been no CCLF communication with past GMs, I just called them up recently. This is not result of conversation with them, just what we've been kicking

SK: Who should be a part of that?

AY: Treasurer, executive committee, new GM, so narrative becomes we didn't meet any of these goals, we've made strategic leadership changes, this is how we get back on track

GL: Maybe December?

AY: Aaron wanted it pretty soon after Italia arrives

GL: But to talk about renegotiating?

N: Auditor's first question was CCLF's position, if they're cool, we'll cool.

GL: Ally you mentioned pursuing restitution, is that really a thing?

RP: We'll get back the cash they had on them, amount they can catch on camera could be mentioned in sentencing. No court date yet. One party was attempting to make a deal by talking on the other party, that's slowed things down. Whole process is slow due to backlog of courts. Right now the charge is between 500 and 10000, same charge, same fine. They only accept physical evidence. To make restitution greater, we would have to figure out how to find physical evidence. Making changes to POS system to figure out how much cash in drawer, deposits made. Low manpower here right now, takes longer.

SK: Five or six ways this might have happened

N: Can stay after for anyone interested

GL: Negative retained earnings?

AY: Correction on that sentence, negative retained earnings and operating losses are synon

N: Relationship of debt to equity is not the definition of solvency - be more concerned about debt **** - those speak to solvency much more. Didn't want to leave out debt to equity since that's been report

Equity is two things: internally generated equity, and externally generated equity. Your internal is more negative, you have liabilities, took out debt. Retained earnings is a fancy phrase for beginning of time of company, net profit or loss from every single year added together. Right now the amount of internal equity, since the beginning, is negative. We've had negative equity since beginning

Talking about solvency want to look at assets being greater, want to look at that every month - you're not solvent. Solvency means you have

Interest coverage ratio is another measure of solvency, it's terrible. Operating

AY: That is actually something in here that should be addressed that I forgot, we don't have a path of compliance to

NS: What should solvency be?

N: Not a question of what should it be, it just is a number, it should be increasing over time.

NS: Should just be watching trend.

Ssh: BI.4? BI.5?

GL: Not sure where to put this, but need to figure out owner payment plans.

SSh: Owner linkage should thinking about that

AY: Don't agree, board as a whole needs to think about ownership structure. Policy question

SSo: Agree with Sean, in order to improve this, need to improve relationship to community, have to bring in community from all over. Board can't manage that externally, building what we have and bringing in external owners. Board can't manage external communications with current owners and get new ones. Trying to find a way to build in niche that I'm good at.

AY: Don't think that looks like an education and outreach committee.

SSh: We can learn value propositions from owners and feed it into outreach activities; what will it take to get people to convince friends?

AY: I'm saying let's not delegate this the OLC

GL: Engagement and outreach, yes, equity and value

SSo: Asking people to pay in full amount at ownership meeting?

AY: Many accounts are under \$500, huge amount of equity there. No mechanism to check right now, I'm working on that. I don't think we can hold voters accountable to that. Only 65% of ownership base has shopped here in the past year, just learned that today. Progress is being made.

Table 7-12

Annual Meeting

8:06pm, Discussion (SSo)

SSo: Wanted to get more feedback, idea of budget

AY: In the past the budget has been \$500, I don't think that's relevant, you guys decide what to do. Rent tables,

SSo: Want avoid renting anything, thinking of getting containers so food isn't left behind. How many people are we expecting? Deli needs a month notice. Can do it via email, send it to the board, how are things going to be served, whether people

AY: Attendance is between 75 and 125. \$500 is governance budget line, should come out of marketing budget. Budget to me is secondary, we should plan event then execute it.

GL: Should do a per-person budget.

AY: Alcohol can be donated. Could even get some food stuff donated.

GL: Go to deli with number of people, some budget, ask for a menu.

SSo: Will come up with a doc to share, collaborate with Rob, food ordered by first of month.

RP: Go through me, deli is in a transition. Mentioned tacos.

SSo: I will be there for hands on stuff earlier in the day.

GL: Room layout, decoration, stage set up. Marketing will talk to vendors about donations.

Global Climate Strike

8:14pm, Decision (SK)

SK: Do staff want to walk off the job? What's our stance?

AY: Haven't heard anything about it?

RP: What is it?

SK: Next Friday, students and some companies are planning walkouts. Friday the 20th, time unknown.

RP: If it's midday on Friday when we're dead anyway, let's close the store and all walk out.

AY: Would be good PR

GL: We have interest as a board in supporting that, can IGM team determine if operationally we support it

RP: I can come up with something, could close store for an hour.

Board voted in support.

RP: Store could host something, work with Cellar Door.

Leadership Transition

8:19pm, Decision (GL)

CLJ: Italia still doesn't have place to live, found potential roommate from Denver. Didn't come this past weekend, things lined up for the 25th when she comes to try to find a place. SK has started a document, wanted to go over in person. Executive committee could get together and have brief convo around B1/B2 stuff so we can sit down with her in the first week, tell her goals for first six weeks, month, six months, year. Mention CCLF call etc.

GL: Would like to propose executive committee meets the first MOnday of the month moving forward.

CLJ: Could meet before that

GL: Agreed.

SSh: Would executive committee be determining goals instead of GMed committee?

CLJ: I thought GMED committee was primarily for evaluation, amped it up for search. Should come up with timeline for evaluation - difference between check in and formal evaluation?

Raise/bonus/metrics/dates? Checking in around resources, what board, staff, ownership needs from her - seems more whole board to me.

RP: Putting together operations binder for Italia. What is transition period for IGM team? 30 days? Your expectations?

GL: No expectations have been set. 30 days seems extremely reasonable, can you manage that?

SK: How do you decide what gets taken and when?

CLJ: Could be up through first board meeting. She will need to be involved in reporting.

SK: Even depends what she's reporting on, you guys might have to do first month.

AY: Sitting in on board monitoring might be good first one for her. B3.6 on public perception was kicked for her, the other two are on community and environment. I don't know if

GL: My inclination is to have her do it and have you link with her, to check in with extreme frequency. Give her a flavor and also some sense of urgency, tell her these were chosen for her, somewhat softballs.

RP: Should I expect to stay in operations position longer while she gets up to speed on financials?

N: Should have conversation with her.

CLJ: Work with her, see how much support she needs and what expectations are.

AY: 30 day window gives team full cycle of internal meetings.

GL: Grateful for what you've done

SSh: Will put together packet of financial information for Italia.

N: Should be part of meetings, want to set her up for success.

BI, Financial Condition, continued:

8:35pm, Decision (GL)

N: Correction on B7, addition to B10, explanation for B12. B7: It mentions not allowing late payments, report contradicts itself. I think AP balance has to be understated, and that causes a problem with liabilities, which affects KPIs. If these payment plans aren't sitting in there as bills against which payments are being made, the COGs could be sitting in the incorrect fiscal year. Accruals are really important for DPFC, and they're all over the place. Our conclusion is that spreadsheet from NCG is not accurate, but also if this has been going on for a while, there's no way APs are right. Then found out MG's training on AP was grossly inadequate. So all docs we gave to Roselyn have disappeared. Process she's using isn't

SK: Do we need to restate this stuff for a year back?

N: I don't think so, it's not possible. I think we write off this past year, get it better. Still have opportunity to restate this fiscal year, already went through audit for past years, no material changes.

GL: Freezing loan payments seems drastic and like it would cause confidence issues. What would be our exposure?

AY: I would have to look at loans coming due and amounts between now and April, more came out of spirit of thing, these loans are subordinated and we are not in a place to pay them...it's actually irresponsible to pay out loans in subordinated positions

GL: What does language say in owner loans?

N: Language is clear, doesn't mean people read it, think it's good to think about

AY: Need to call people, ask to keep it longer

N: If past history any indication, people don't know it's coming due, only have conversation with those who contact you

SSh: Did quick calculation, total amount coming due \$35500, would be most comfortable leveling with people

SK: No negotiation, it's in the language, start with the positive

AY: Beneficial to engage people that way

CLJ: Or could ask for more money!

N: If you do that, make sure Jesse knows, or I do - those are all classified as current liabilities. Loans and interest payable are due, those are current liabilities. Have been problems in the past where loans have been extended and we didn't get the paperwork, we have a complex spreadsheet to reconcile.

AY: Should I send loans to CCLF this month, or should I wait and freeze this for the time being.

SK: I say freeze it

AY: Doesn't have to be a hard line

SSh: Prefer to get approval, make sure these people know we need their money

N: Say I would like to, but say you need approval from CCLF, then submit

GL: The confidence I'm concerned about is going into another capital campaign, and the way we handle this reverbrates into future loans. It's crucial this feels professional and reliable

AY: The linchpin is the board's made this strategic decision, we're bringing in a new GM, it is risk but you can be confident now because we have new leadership

GL: Need to write a script, no seat of your pants conversations

N: Honestly people are shocked, nobody has any idea their loan is coming due, some people we can't get a hold of. Don't

GL: Can we reclassify them?

N: No, need new loan document.

GL: Who decides where it's classified?

N: The auditors are not going to reclassify it unless you have a loan document

SK: Since we didn't pay it out, it's still sitting in current liabilities

SK: I.7: Aging, multiple vendors are overdue - we've asked about this before, we can assume that it's been screwed up for the past year. Is 50K/week enough?

N: If you compare this to the last report, the amount that has aged over the past 30 days has improved immensely. MG is trying to identify this stuff. Part of it is capturing this appropriately, and she's figuring out who we haven't captured. If we're behind and the vendor hasn't told us, we wouldn't know. I think that exposure is pretty low.

AY: I had similar concerns - this 50 has become a mythical number internally, like it's some kind of cap.

N: She was told that the number left in the bank after a payout shouldn't be lower than 45000 because of the float, I don't know if that's true.

AY: I think it's because it makes your bank balance look good and you can report positively, I think we should pay our vendors because this is really harming our relationships.

SSh: Let people know a new boss is in town

SK: Do we think stolen checks are related?

AY: We think it was a member of the staff at that particular branch

GL: MG dropped some of those checks

SK: IG is on it, how far back does this go?

N: This fraud would be difficult to go back further than March. 4 of 5 things that I mentioned are SMS, and only one person was trained on it. But the person from North Country essentially told MG how to commit fraud when she called on discrepancies. In August it's still an issue, we need help from the developer. On B10 - love idea of timeline, need to add more payments to it. You would know basic concepts, require that payment schedule moving forward. Read notes before you read statements.

Closing

9:08pm, Decision (AY)

GL: Remove anything from October schedule? Maybe put packet out early?

AY: Wednesday for packet

GL: Electing officers cannot be done at annual meeting?

AY: Should still have conversation about it, through email or something. Could just happen in November if that's when we elect officers.

GL: B11, B12, 36 - Ally, 11 & 12 by Italia, bringing Ns forward. Evaluation notes for new directors?

SSh: Looking back at evaluation notes from past years?

GL: Another financial and board training, talked to Thane. No potential dates yet, will come back. Next agenda will not include evaluation notes for next directors

SSh: Might be about improving orientation process