

Board of Directors Meeting  
**Monday, February 17, 2020**  
6:00pm open | 9:00pm adjourn

**Directors present:** Tatum Evans, Mike Strode, Peter Frank, Ally Young, George Langford, Celeste Levitz-Jones, Brian Perea, Sendy Soto. *Absent: Rebecca Reynolds.*

**Staff:** l'Talia McCarthy (GM)

**Owners:** Nancy McClelland (CPA), Gretchen Johnson (scribe), Gina Montenaro

**Guests:** Scott Kane (attorney), Bosie Walker and Trayce Boise (Joliet start-up)

6:02 **Rounds Question** (Mike): Favorite ice cream flavors!

6:08 **Legal Briefing** (Scott Kane)

- Hired to represent DPFC in civil case against former employees, working on a contingency fee basis as a neighbor. Filed 5 civil complaints, \$172,000 embezzled from DPFC. Civil lawsuit means monetary relief, both defendants will be appearing in criminal court on February 20.
- Probable outcomes: may get civil judgment in 6 months or a year that says that defendants have to pay the money (not self-enforcing, suspects suspects have already spent the money); have pled actual and constructive fraud - not a type of liability that is dischargeable in bankruptcy.
- Enforcement: can place judgment lien on foreclosed property purchased during interim GM tenure; can issue citation for wage garnishing. Likely the case will take months or years to resolve, advised not to plan on seeing money back.
- Hearing scheduled for March 11, will follow up with any updates.
- Questions fielded from directors.

6:30 **Owner Comments** (George)

- Gina Montenaro (former employee): here to listen.
- Bosie Walker & Trayce Boise: working to open a co-op grocery store in Joliet, here to listen and learn about the governance process.

6:35 **Meeting Agenda** (George)

- Approved as written, will extend meeting to account for addition of legal briefing.

6:37 **Minutes Approval** (Ally)

- AY asks about concerns with regard to accuracy of notes or visibility of financial data. GL thinks that owners should see business information, PF likes to err on the side of transparency.
- January minutes approved for filing as written.
- CPA notes that the WSR has been updated, an action requested last month.

#### 6:41 **Share Approvals** (Ally)

- SS suggests gathering data on how new owners discovered DPFC.
- GL asks about method of counting total owners; IM says current process is complicated with POS system. TE asks about accuracy, IM says 3,163 was provided by POS Coordinator, AY says this number includes closed accounts and employees; total current shareholders is 2,720.
- CLJ suggests considering accounts “active” if patronized in past year. IM will conduct an audit.
- 23 new owners and 1 equity repurchase request approved.

#### 6:47 **Operations Report** (l’Talia)

- \$10K over budget for month of January: uptick in transactions, average basket size has gone down. Equity paid-in total is healthy, gained 10 more owners than this month last year.
- TE asks about absence of front end, facilities, and marketing information; IM says there are no updates, invited AY to share summary of marketing activities.
- GL asks about increase in equity year over year; IM says cashiers are doing a better job asking people to join, community desk is being staffed three days a week..
- SS asks about hot bar staying open later, lights going off in beer area, spoiled products on shelves, vision for alcohol section, ways to highlight halal items. IM responds with plans for reset, will provide feedback to grocery and deli managers. Note that buyers will be increasing conventional product mix, pursuing WIC certification.
- BP: how can we find out what people need, especially with Target moving in? IM is relying on staff on the floor, customer comments. CLJ asks about status of customer survey, AY says there is still time to submit questions.

#### 7:10 **GM Monitoring: BI, Financial Condition Q2** (George)

AY reviews the policy monitoring decision tree at request of GL. All directors affirm they’ve read the report and are prepared to discuss.

Q2 report addresses sub-policies only; no global interpretation or data provided.

CPA inquires about semantics of “shall not fail to;” intent was clarified. [*Note: report erroneously included old language, “The GM shall not fail to,” as preface to sub-policies.*]

#### BI.1

- Interpretation: accepted as reasonable.
- Data: inadequate to determine compliance.
  - TE: There is no evidence that this growth has or will cover expenses, debt service and strategic priorities. IM responds that strategic priorities and debt service are represented by budget; CPA says that this sub-policy is meant to isolate sales growth as an independent measure. TE says that although sales growth met budget, owner loans and institutional loans remain outstanding.
  - GL seconds this concern; is this the measure we need? Data doesn’t support the interpretation provided.

- PF: use of old budget is not ideal; excited to see new projections and budget. IM will submit updated budget to board with B2 report.
- GL: Commentary on process: the board has hesitated to find things out of compliance as a commentary on GM performance, but we need to address the anxiety of this moment with our financial condition.
- SS: Believes we are in compliance; there may need to be amendments.
- AY: Depends on interpretation. Context on budget: was designed with NCG advisor during interim period to set realistic goals that could be met with certainty in order to manage cash flow, begin to exercise accountability within departments, and position us for renegotiation with lenders. Q2 sales met that budget; would propose that we accept a reinterpretation of policy as vs. budget, which the data supports.

*Revision:*

- IM presently interprets the B1.1 policy to mean that *sales growth for this quarter will exceed sales growth for the same period year prior and will meet or exceed the budget*. Data provided is now adequate.
- Compliance: revised report accepted as demonstrating compliance.

## BI.2

- Interpretation:
  - CLJ, GL: looking for clear, confident language. IM clarified NCG benchmark.
  - AY notes that benchmark based on peer median can't stand alone as operational definition, suggests reinterpretation vs. budget, as supported by data.
  - *Revision:* IM interprets the B1.2 policy to mean in part that *net income must meet or exceed the budget*. Accepted as reasonable.
- Data: accepted as adequate to determine compliance.
  - CPA clarifies that TE's concern re:BI.1 is addressed in the EBITDAP measure.
  - AY requests to have figures represented as percentage of sales for comparison.
- Compliance:
  - AY asks about report of partial compliance given that both pieces of data show noncompliance, CPA responded that strides are being made to close the gap from Q1 and that this report shows progress. AY proposes that we accept the report as demonstrating noncompliance with a plan in place and note the improvement.
  - CPA asks about ramifications of noncompliance, GL says none: we see the plan, we're moving forward. Currently testing the concept of partial compliance at the recommendation of IM.
  - AY requests that the GMED committee examine the issue: GM performance is analogous to organizational performance within our governance system, yet we're expecting to be out of compliance with many of our policies during this transition period. Suggests assessing the strength of plans to move forward rather than shifting the nature of compliance.

- CLJ asks for a more explicit path to compliance, IM responds that she's aiming to close the gap by Q3 with continued sales growth and purchasing budgets for each department in place.
- Revised report accepted as demonstrating partial compliance with one abstention, AY.

BI.3: Accepted as demonstrating non-compliance, with Q3 follow-up to be given.

- Time dedicated for further discussion on cash position after the monitoring process.

BI.4

- Interpretation: AY: concerned about peer comparison in this context with negative retained earnings and post-expansion debt. Appears the working interpretation is vs. budget. IM revises interpretation: *NCG benchmark* replaced with *budget*. Accepted.
- Compliance: revised report accepted as demonstrating compliance.

BI.5

- Interpretation accepted as reasonable, data accepted as adequate.
- Compliance:
  - AY: data demonstrates compliance for only one of three indicators used in interpretation: ownership growth. Total paid-in equity is less and share withdrawals greater than in year prior. This could indicate that folks are joining, access programs are effective, and that the rate of repurchases hasn't changed--but interpretation should reflect GM's understanding of sufficiency.
    - PF views continued growth in new owners as positive.
    - MS thinks there is validity in partial compliance with path to compliance.
  - GL notes difficulty of reconciling ambitious interpretations with realities.
    - CPA asks about directors working together to determine interpretation.
    - CLJ clarifies that the board looks to the GM to provide that. GL affirms that IM is the board's primary source of information, including how policy is operationalized. Board wants to hear how things are going and what the plan is compared to the expectations we've set out in policy.
    - SS suggests working out concerns via email before meeting.
    - CLJ says reports should ideally be reviewed at mid-month check in. Notes that context is more important than compliance within GMED.
  - Accepted as demonstrating partial compliance, with one abstention, AY.

BI.6: Accepted as demonstrating compliance. Great work on renegotiation.

BI.7: Compliance: accepted as demonstrating partial compliance with one abstention, AY.

- Data: IM will submit an AP report with quarterly BI financials moving forward.

BI.8-II: Accepted as demonstrating compliance.

## BI.12

- Interpretation:
  - AY believes it's unreasonable for GAAP assessment to exempt staff, especially as data shows AP department as noncompliant. This was accepted in Q1.
  - CPA proposes edit: "qualified accountants *and internal systems*." Accepted.
- Compliance: revised report accepted as non-compliant with Q3 follow-up to be given.

## 8:40 Proposal: Equity Restructure (Ally)

Rescheduled for next month's consent agenda. Directors will take questions online.

## 8:41 BI.3 on Cash Position (I'Talia, Nancy)

- Situation: spending money to make money, but over budget: good sales, but unplanned expenses.
- Approach: cash conversion cycle: working down accounts receivable and inventory, deferring liabilities and renegotiating loans, using float to our advantage. Strategy in use for one month.
  - Bank account will be negative on paper to leverage AP borrowing.
  - Looking daily at difference between book and bank balance. Now corrected on WSR.
  - Working to rebuild relationships with vendors. Presently unable to negotiate payments.
  - AP team working to get up to date.
  - Hiring a finance manager.
- IM will include balances in operations report monthly and provide an update during meeting.

## 8:57 Board Calendar (George)

- All directors should review scheduled items and share concerns via email.
- Meeting roles for next month: Timekeeper: Mike, Facilitator: needed, Check-in/out: Tatum

9:00 Meeting adjourned.