

**Open Harvest Cooperative  
Board of Directors Meeting Minutes  
Wednesday, August 3, 2016, 6:02 – 7:31 PM  
Two Pillars Church, 1430 South Street**

**Present:** **Board Directors:** Brandé Payne (Board Chair), Megan Jackson (Vice Chair), Mary Hansen (Secretary), BJ Birkel, Ross Brockley, John Christensen, Barbara DiBernard, Ellen Dubas, Bob Hutkins. **Staff Members:** Amy Tabor (General Manager), Brian Furby. **Member Owners:** Robert Huber, Paula Shafer (notetaker).

**Informed Absence:** **Board Directors:** None.

**Uninformed**

**Absence:** **Board Directors:** None.

6:02 pm **Welcome, Introductions and Announcements:** The chair called the meeting to order and welcomed board members, staff and member-owners.

6:03 pm **Approval of July Minutes and August Agenda:** The chair presented the draft July minutes, the draft July executive session minutes, and the draft August agenda for approval. The agenda was amended to include a request for a member-owner equity redemption.

**Consensus items:** The board approved the July minutes, the July executive session minutes, and the August agenda with the addition of the equity redemption request.

6:03 pm **Reserved Member-Owner Comments:** There were no reserved member-owner comments.

6:04 pm **Equity Redemption Request:** The chair requested approval of an equity redemption in the amount of \$210 to member-owner number 10517.

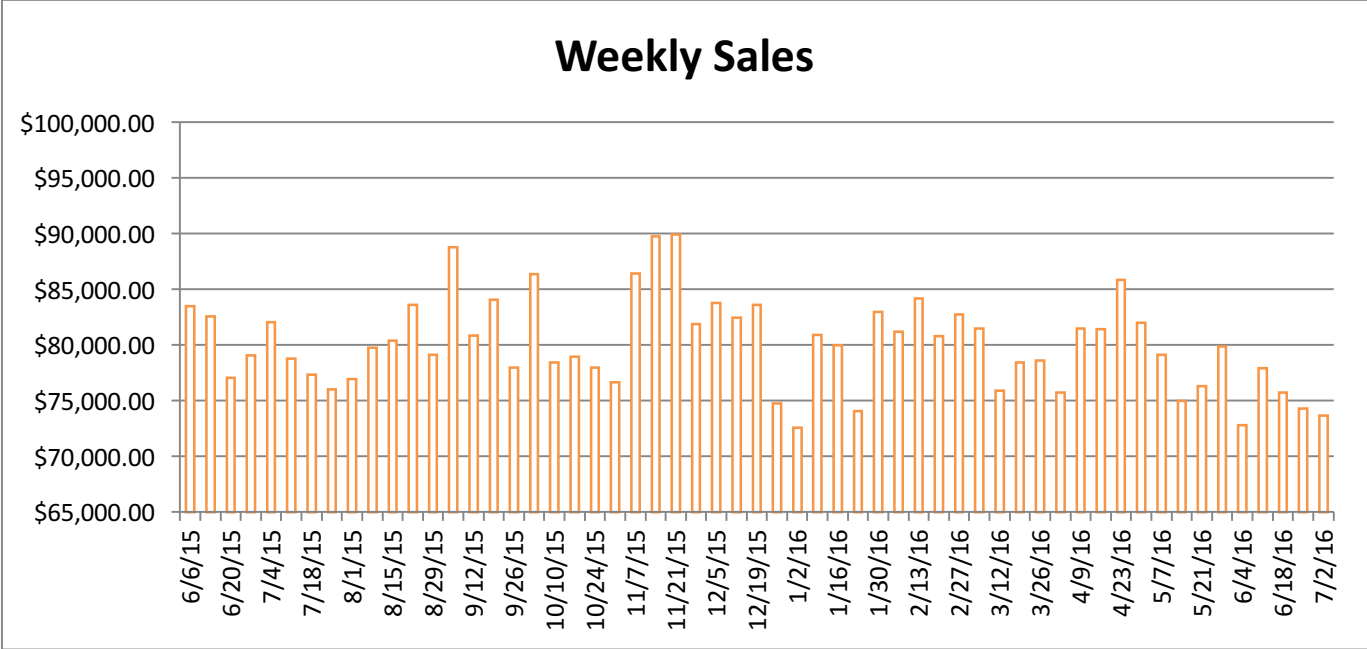
**Consensus item:** The board approved the equity redemption request.

6:05 pm **General Manager Monthly Report:** The GM discussed her monthly report which was available electronically to the board prior to the meeting.

FINANCIAL SUMMARY (June 1 – 30)

June sales were \$321,004, missing the budget goal of \$330,217 by (\$9,213) or (2.8) percent, which is below the June 2015 sales by (8.7) percent. However, sales for the quarter were 2 percent above budget. Labor for the month was \$70,503 or 21.96 percent of sales, falling short of the goal by (1.16) percent. Total operating expenses came in above the goal of 37 percent of total sales at \$131,724 or 41 percent.

	<b>Sales</b>	<b>Labor</b>	<b>Expense</b>	<b>Days Cash</b>
<b>Budget/goal</b>	<b>\$330,217</b>	<b>20.8%</b>	<b>37%</b>	<b>15 or more</b>
June 2015	\$348,907	20.76%	39.2%	8.59
June 2016	\$321,004	21.96%	41.0%	4.34
% Chg. PY	(8.7%)	1.2%	1.8%	(4.25%)



The board and GM discussed the reasons for the variation in weekly sales. The GM explained that sales spikes were typically due to holidays and special promotions. One successful promotion was the Owner Appreciation sale that offered a 30 percent discount for Field Day brand products. The discount originated from Field Day who plans to offer the wholesale price reduction once per year.

**SALES PER LABOR HOUR (SPLH)**

Date	6/15	7/15	8/15	9/15	10/15	11/15	12/15	1/16	2/16	3/16	4/16	5/16	6/16
SPLH	\$60	\$61	\$66	\$63	\$59	\$67	\$62	\$62	\$69	\$63	\$65	\$60	\$58

**AP TO INVENTORY RATIO**

Accounts Payable as of June 30, 2016 was \$156,146 and the last inventory was \$202,400. This is a ratio of .72.

Date	6/15	7/15	8/15	9/15	10/15	11/15	12/15	1/16	2/16	3/16	4/16	5/16	6/16
Ratio	.70	.61	.79	.76	.78	.88	.59	.76	.81	.83	.73	.72	.77

**MEMBERSHIP (June 2016):**

- Active member owners: 2889
- New member owners: 28; Renewals: 120
- Total equity: \$3700
- Abandoned equity (Jan – June 2016): \$4425

## PERSONNEL

New employees include Jacy Hewitt (Produce), Brett Weber (Food Service) and Monty Stoakes (Cheese Coordinator). Megan Mejsrik (Wellness Manager) and Vicki Gilliam (Grocery Manager) attended National Co+op Grocers (NCG) 's Convergence Conference in St. Paul, MN July 20 – 22. Emily Brede (Produce Manager) will be attending NCG's Focus on Fresh on August 16 – 18 in St. Paul, MN. The GM will attend the final Consumer Cooperative Management Intensive seminar in Raleigh, NC August 23 – 25. The training tuition is funded by NCG, while the Co-op pays for the travel.

The store is closing early for an all-staff meeting on Tuesday, August 9 at 8:30 pm. The GM will be presenting this year's business plan, budget and wage thaw. She plans to have a follow-up meeting where staff, after having time to think and process the plan and wage thaw, will have the opportunity to ask questions and discuss the plans. This is tentatively scheduled for Thursday, August 18 at 10 am and 5:30 pm at 2 Pillars Church.

## OPERATIONS

A new infographic featuring the Co-op's support of local producers has been developed. The percent of local sales is a conservative estimate since not all local products sold can be tracked. The data will start being used for advertising purposes in September.

The Co-op sent a letter on July 15 notifying all active volunteers that the Open Harvest volunteer program will be discontinued. Staff were notified on July 18. Follow-up communication will include an e-newsletter in mid-August, a thank-you card and invitation to staff bowling party after August 31, and an article explaining the change to member-owners in the fall edition of the Dirt newsletter. The GM noted that most volunteers understood the reasoning; although, a few were upset. Some volunteers may be offered positions as on-call staff for work that they do.

The GM hired Firespring, a local marketing and advertising company, to create direct mail campaign beginning in the second quarter. Direct mail pieces will be sent to a specifically targeted audience within three miles of the store in October, November and December.

Preliminary conversations regarding a store remodel have begun with the Development Cooperative via NCG Development Advisor Paula Gilbertson. A feasibility study would be necessary to make an informed decision. The study would cost \$15,000 and require a loan to fund. The board and GM discussed the affordability of that expense at the current time. The study cost is comparable to other consultants. A board decision currently is not needed as this is a preliminary discussion between the GM and the NCG consultant. Board members can email the chair with additional concerns or questions.

## JULY PROMOTIONS

July promotions were the 41<sup>st</sup> Birthday Party, the first Wellness Wednesday and the Big Blue Bag Sale.

## UPCOMING PROMOTIONS

Upcoming promotions include:

Quarterly Owner Appreciation Day: August 16—Member-owners can save 10 percent off their entire purchase excluding special orders.

BackPack Drive: August 17-31—Donate a backpack for the Lincoln Food Bank BackPack program and receive a \$5 off \$25 coupon.

Wellness Wednesday: August 31—10 percent off supplements, body care and general merchandise.

6:34 pm

**GM Policy Monitoring Report: L1—Financial Condition and Activities (4th Quarter):** The GM discussed the L1 report which was available electronically to the board prior to the meeting.

**L1—Financial Condition and Activities: With respect to the actual, ongoing financial conditions and activities, the General Manager must cause or allow the Cooperative to honor board policies on Ends, to avoid fiscal jeopardy, to be prepared for future opportunities, and to maintain key operational indicators at or above the average for our industry.**

**The GM must not:**

**L1.1. Allow operations to generate an inadequate net income (to be negative for 3 consecutive quarters).**

The GM interprets this to mean net income cannot be negative for 3 consecutive quarters.

For the past three quarters, net income has been:

4<sup>th</sup> quarter 2015-16 Net Income (\$10, 504)

3<sup>rd</sup> quarter 2015-16 Net Income (\$7,011)

2<sup>nd</sup> quarter 2015-16 Net Income (\$12,902)

At the July 2016 board meeting, the GM presented a detailed business plan that included a balanced budget for the 2016-2017 fiscal year. The current GM inherited the first two quarters of last fiscal year. Since her appointment, the GM reported that she has made changes to get the business going in the right direction. Although the Co-op did not achieve a positive net income for fourth quarter, progress has been made in a positive direction in terms of margin, total personnel expenses and EBITDAP.

	<b>1Q 15-16</b>	<b>2Q 15-16</b>	<b>3Q 15-16</b>	<b>4Q 15-16</b>
<b>Margin</b>	35.45%	36.09%	36.05%	36.78%
<b>Personnel</b>	24.08%	23.8%	22.99%	23.80%
<b>EBITDAP</b>	(.72%)	.23%	.81%	.46%

The GM asserted non-compliance.

The GM plans to remedy inadequate net income by continuing to monitor and provide support to managers in key departments who will work attentively to improve their margin and labor. Keeping track of waste and following a weekly purchasing budget will help hold inventory steady, freeing up cash and improving the bottom line. Continuing to learn and improve on keeping labor steady and responding to fluctuations in sales in a timely manner will also help net income. In September, a new manager on duty (MOD) schedule will be in place, providing a constant support to the sales floor and helping with labor efficiencies in grocery, produce and the front end. These indicators are stable or are shifting in the right direction. Additionally, measurable advertising tactics through a direct mail campaign will begin at the end of first quarter, which in other co-ops have brought great results.

**L1.2. Allow liquidity (the ability to meet current and anticipated cash needs in timely and efficient fashion) to be insufficient.**

The GM interprets this to mean current and anticipated cash needs must be sufficient.

Cash continues to be tight but is very slowly improving. As outlined in the business plan for next year, building the cash reserve is a priority.

The GM asserted compliance.

**L1.3. Allow growth in ownership and owner paid-in equity to be insufficient.**

The GM interprets this to mean that growth in ownership and owner paid-in equity needs to be sufficient to meet the needs of the business. In fourth quarter, member-ownership grew from 2,835 at the end of March to 2,889 active member-owners by June 30, a net increase of 54 and \$1350 in equity.

The GM asserted compliance.

**L1.4. Allow late payment of contracts, payroll, loans or other financial obligations.**

The GM interprets this to mean that all payments of contracts, payroll, loans and all other financial obligations will be paid on time.

All payments of contracts, payroll, loans and all other financial obligations are being paid on time and are signified by a lack of late fees or penalties.

The GM asserted compliance.

**L1.5. Incur debt other than trade payables or other reasonable and customary liabilities incurred in the ordinary course of doing business.**

The GM interprets this to mean the store will not incur any debt other than trade payables or other reasonable and customary liabilities incurred in the ordinary course of doing business.

The GM has not incurred any debt other than trade payables and other reasonable and customary liabilities in the course of doing business.

The GM asserted compliance.

**L1.6. Acquire, encumber or dispose of real estate without board approval.**

The GM interprets this to mean that the store will not acquire, encumber or dispose of real estate without board approval.

The GM has not acquired, encumbered or disposed of real estate without board approval.

The GM asserted compliance.

**L1.7. Allow tax payments or other government-ordered payments or filings to be overdue or inaccurately filed.**

The GM interprets this to mean all tax payments and other government-ordered payments and filings will be paid on time and will be accurately filed.

All tax payments and government ordered filings are paid accurately and on time by the Finance Manager. Federal payroll taxes are deposited on time after each payroll and unemployment and state taxes are deposited once a month. Quarterly state and federal information returns are filed within the 30-day deadline.

The GM asserted compliance.

**L1.8. Allow financial record keeping systems to be inadequate or out of conformity with Generally Accepted Accounting Principles (GAAP).**

The GM interprets this to mean that all financial recording-keeping systems will be adequate and will conform to GAAP.

The annual financial review conducted by Gardiner Thomsen CPAs confirms that Open Harvest is conforming to GAAP standards through its organized recordkeeping system, by using QuickBooks, and by providing hard copies of supporting accounting documents.

The GM asserted compliance.

**L1.9. Allow the absence of a \$100,000 Reserve Fund, or not meet the following conditions:**

The GM interprets this to mean the Co-op will have a reserve fund of \$100,000, or meets the following criteria.

The Co-op currently has a reserve fund of \$25,000 but meets the following criteria:

**L1.9.1. Allow the Board to be uninformed of the amount and location of Reserve Fund.**

The reserve fund is located in a CD at Union Bank and Trust, Lincoln NE.

The GM asserted compliance.

**L1.9.2. Allow the disbursement of Reserve Funds without the concurrence of the board chair.**

The board chair concurred to allow the store to disburse \$75,000 of the reserve fund (\$25,000 on August 4, 2014, \$25,000 on December 3, 2014, and \$25,000 in November 2015) to supplement cash flows needs of the business.

The GM asserted compliance.

**L1.9.3. Allow Reserve Funds to remain below \$100,000 for more than one quarter, or three months without board approval.**

The current balance of the reserve fund is \$25,000 and has been below \$100,000 with board approval since August 2014.

The GM asserted compliance.

**L1.10. Allow expenditures that deviate materially from board policies on Ends.**

The GM interprets this to mean that she will not allow for any expenditure that deviate from board policies on Ends.

The GM has not allowed any expenditure that deviate from board policies on Ends.

The GM asserted compliance.

**L1.11. Allow the use of restricted funds for any purpose other than that required by the restriction.**

The GM interprets this to mean that she cannot allow the use of any restricted funds for any purpose other than that required by the restriction.

She has not used any restricted funds for any purpose other than that required by the restriction.

The GM asserted compliance.

**L1.12. Allow store expenses to exceed net income from store operations (NIFO).**

The GM interprets this to mean that store expenses cannot exceed NIFO.

At a net ordinary income of \$(14,769) in the 4th quarter of 2015-16, co-op expenses did exceed NIFO. The GM pointed out that the co-op had another positive EBITDAP of \$4,721. This is the third consecutive quarter that the store had a positive EBITDAP, which takes into account the non-cash expenses that affect the net ordinary income number. The Co-op is making progress in the right direction and pending board approval, this number will be monitored in future L1 reports. The 2016-17 business plan includes a balanced budget that has a positive NIFO for each quarter.

The GM asserted non-compliance.

**L1.13. Allow quarterly financial reports to be submitted later than the 21st of the month (or the first business day thereafter) following the end of each quarter, nor to exclude a one-year history with each report.**

The GM interprets this to mean that quarterly financial reports will be submitted to the Finance Committee no later than the 21st of the month following the end of each quarter, and that it includes a one-year history with each report.

The fourth quarter 2015-16 financial statement was sent to the Finance Committee on July 21, 2016 and included a one-year history with the report.

The GM asserted compliance.

**L1.14. Allow an annual financial report to not be delivered to the board by the October meeting, along with the external audit or review of financial statements.**

The GM interprets this to mean that an annual financial report needs to be delivered to the board by the October meeting, along with the external audit or review that was conducted for the year.

The external accountant delivered a review of the 2014-15 financial statements to the board at the October 7, 2015 board meeting. The Co-op is on schedule to do so again in a timely fashion after the close of this year's statements.

The GM asserted compliance.

**L1.15. Allow the Board to be uninformed of member loan payback readiness.**

The GM interprets this to mean that the board needs to be informed of member loan payback readiness.

At this time all of the member loans from the 2009 expansion project have been repaid to the member-owners in full. Additionally, the co-op incurred two new member-owner loans for \$2000, which are due in 2021.

The GM asserted compliance.



**L1.16. Allow the Board to be uninformed about the following figures nor the one-year quarterly history of said figures\*:**

- L1.16.1. Debt Coverage Ratio**
- L1.16.2. Quick Ratio**
- L1.16.3. Return on Assets**

The GM interprets this to mean that board needs to be informed of the said figures in L1.16.1-L1.16.3 and that there will be a one-year quarterly history included.

<b>Period Ended</b>	<b>*Debt Coverage Ratio</b>	<b>*Quick Ratio</b>	<b>*Return on Assets %</b>
<b>Goal:</b>	<b>below 3.0</b>	<b>above 1.0</b>	<b>above 1.0</b>
6/30/16	1.02	.48	(1.74%)
3/31/16	.58	.25	(.77%)
12/31/15	.22	.15	(1.96%)
9/30/15	(1.39)	.22	(3.28%)
6/30/15	.31	.28	.03%

**L1.17. Allow the board to be uninformed about the following figures in the monthly General Manager report:**

- L1.17.1. Accounts payable to inventory ratio with a one-year history.**
- L1.17.2. Personnel expense as a percentage of sales as compared to budget and the same period for the previous year.**
- L1.17.3. Total expenses as a percentage of sales as compared to budget and the same period for the previous year.**
- L1.17.4. Sales Per Labor Hour (SPLH) with a one-year history.**

The GM asserted compliance.

**Receipt of L1—Financial Condition and Activities Policy Monitoring Report:** The GM and board discussed the areas of non-compliance and the GM’s plans for compliance. The chair asked each individual board member for additional questions and comments and then recognized receipt of the L1 policy monitoring report.

6:55 pm

**Policy Revision Discussion: L1 - Financial Condition and Activities (lead by Finance Committee), L - Global Executive Constraint and Activities, and L2 - Planning and Financial Budgeting:** CBLD Consultant Marilyn Scholl offered suggestions to the Board Operations Committee regarding L1 policy revisions. She recommended that the board review the CBLD policy template for Financial Condition and Activities. Consistent with the other policy governance templates, the template focuses on what the GM should not do rather than requesting specific financial data. She suggested that this would streamline the reporting process and place focus on areas of non-compliance. The GM reporting should prioritize corrective action plans for non-compliance. The finance committee will discuss modifying the L1 policy revisions at its next meeting and develop draft revisions for board approval.

No revisions were suggested for L and L2 Policies.

- 7:00 pm **Annual Meeting: Discussion and Planning:** The Member Structures Committee offered to take responsibility for planning the Annual Meeting. In addition, the committee will discuss possible revisions to its charter.
- 7:14 pm **Annual Audit/Review: Discussion and Planning:** The current by-laws require a full audit of the Co-op's finances at least every five years, which next would occur in 2017. An audit incurs considerable additional expense but provides a much more detailed inspection of the Co-op's finances. The GM will research the legal requirements regarding audits to verify compliance with state law.
- 7:30 pm **Board Operations Committee Report:** The chair reported that all Board Operations actions were discussed under previous agenda items.
- 7:20 pm **Board Retreat Preparation: Final Details and Reminders:** The retreat is scheduled for Saturday, August 6, 2016 at Mahoney State Park. The venue requires that all food be provided by the park catering service. The chair also reminded the board to arrange car-pools as a park sticker is required for entrance.
- 7:26 pm **Review Outstanding Action Items:**  
The following actions items were completed:
- 4/16 – 4
  - 5/16 – 2
  - 7/16 – 1
- New Action Items:**
- The Membership Structures Committee will meet to plan the annual meeting and discuss revision of its charter.
  - The chair will write an article for the Dirt about member-owner engagement and the discontinuation of the volunteer program.
  - The GM will research the legal requirements regarding audits.
  - The GM will report on the impact of store resets on sales (see following).
- 7:29 pm **Guest Members' Comments:** None.
- Board Comments:** A board member asked if the Co-op had seen an increase in sales from the recent resets. The GM will report on that next month. A board member asked whether there is an expected return on investment if the Co-op undertook remodeling or updating of equipment. The GM will discuss this with the NCG advisor, but noted that a return on investment analysis would be included in the feasibility study prior to updating.
- 7:31 pm **Adjourn**

Action Item	Description	Assigned To	Date Opened	Date Due
7/16 – 2	Present proposed L1 policy revisions for approval.	Finance Committee	7/6/16	9/7/16
7/16 – 3	Create a running list of possible bylaws revisions.	Board Operations	7/6/16	9/7/16
8/16 – 1	Meet to plan the annual meeting and discuss revision of its charter.	Membership Structures Committee	8/3/16	9/7/16
8/16 – 2	Write an article for the Dirt focusing on member-owner engagement.	Board Chair	8/3/16	9/1/16
8/16 – 3	Research legal requirements regarding audits.	GM	8/3/16	9/7/16
8/16 – 4	Report on the impact of store resets on sales.	GM	8/3/16	9/7/16