

ONEOTA CO-OP BOARD MEETING  
Oneota Co-op Building, Meeting Room  
May 27, 2008

Present: Board members, Steve P., Georgie K., Lyle L., Onita M., Keith L., Joan L., and Toni S.; General Manager, Christopher DeAngelis, visitors John Klosterboer, Jana Klosterboer and Donna Ellingson (Ms. Ellingson for part of the meeting).

Board President Steve P. called meeting to order at 5:05 p.m.

Review Agenda – Accepted as presented.

Member-Owner Comments – John K. asked about the board material being posted on the Co-op website, such as the annual meeting minutes and policy manual. Onita thought the annual meeting minutes and other recent board minutes were posted. Steve P. will coordinate with Christopher to see that the relevant documents are posted.

Approval of Minutes from April 29, 2008 meetings – Toni moved and Georgie seconded to approve the minutes. Approved unanimously.

Policy Monitoring, G4 – Board Code of Conduct – The board began work under the new policy governance manual, which will involve the board doing an annual review of each governance process policy. The policy under review for May was the Board Members' Code of Conduct. Steve P. provided a written report setting out the policy, the board's interpretation of the policy, what data was used to show whether the board was in compliance with the policy, and a statement as to whether compliance had been met. The board's interpretation of the policy may be refined each year, and new data to measure compliance will be gathered each year. All board members acknowledged receiving and reviewing the report prior to the meeting.

Policy G4.1 is the loyalty policy. It states that board members must represent loyalty to the interests of the ownership. The board interprets the policy to mean that board members are part of a group, whose purpose is to represent the interests of the ownership at large, and not act as advocates for individual interests or small constituencies. All board members renewed their signed code of conduct statements in April 2008, and the board is undertaking training through Cooperative Board Leadership Development on the roles and responsibilities of board members. No instances of board members needing reprimand or reminders of the duty of loyalty have occurred. The monitoring report indicated compliance with this policy.

Policy G4.2, and its subparts, comprise the conflict of interest policy. Board members have a duty to disclose actual or potential conflicts and generally may not participate in decisions if they have conflicts. They shall not be a party to contracts for profit with the co-op on terms differing from those used for co-op members. They shall not use their board positions to obtain preferential treatment or employment for themselves, family members or close associates. No conflicts of interest have been reported or called to the attention of the board. No contracts for profit have been reported, and no board members are employed by the co-op or have advocated employment for others. The monitoring report indicated compliance with this policy.

Policy G4.3 and its subparts set out the rule that board members may not exercise individual authority over the co-op, or represent the board or the co-op, except as provided in the written policies. Individual board members must recognize this limitation when interacting with the general manager, staff, co-op members and the general public. Individual board members should not represent their own opinions as being those of the board. The board president will generally be the contact person for public statements from the board. Board members will make no judgments about general manager or staff performance except in the context of deliberating on whether the manager has achieved a reasonable interpretation of board policy. Compliance with this policy will largely involve self-reporting. No instances of violation were known to the board. The monitoring report indicated compliance with this policy.

Policy G4.4 sets out the board members' duty of confidentiality on sensitive information and issues that are still under deliberation. Public information will be construed as the board minutes and end-of-year financial information. No instances of violation were known to the board. The monitoring report indicated compliance with this policy.

Policy G4.5 directs the board members to contribute productively to the board's work. The monitoring report indicated compliance with this policy.

The board discussed how data could be gathered to evaluate compliance with the governance policies. Members agreed that questionnaires and/or consultant surveys could be done as appropriate for the monitoring reports.

Georgie moved to accept the monitoring report showing compliance with all parts of Policy G-4. Toni seconded. Approved unanimously. Steve P. will draft a reporting tool/questionnaire for the board.

Policy Monitoring, L5 – Financial Condition – The general manager will provide the reports monitoring executive limitation policies. A question came up about what should be done if a board member had not received a report or had not reviewed it sufficiently to be able to discuss it at the meeting. Two board members did not receive Christopher's report prior to the meeting, and some other members had barely enough time to review it. According to the decision tree, the item could be tabled and reset for the next meeting. Another option was to review the monitoring report at the meeting and determine then whether to act on it. Assuming in future that all board members receive reports with sufficient time to review them, it would be unfair to hold up the board's work because one or two members had not come to the meeting prepared. An unprepared member should abstain from voting, unless he or she feels well enough informed after the discussion to cast a vote. The board decided to proceed to review the report, and determine then whether to take action on it. The report was projected on the wall so that all could view it.

Executive Limitation Policy L5, titled Financial Condition and Activities, will be reviewed on a quarterly basis. The board agreed that the report included all of the necessary components. Policy L5.1 involves incurring debt. The co-op has not taken out loans or leases other than those approved in the pro forma business plan and, to date, has not needed to take out all of the loans projected. The board thought the manager's interpretation of the policy was reasonable, the data was adequate and demonstrated compliance.

Policy L5.2 prohibits the use of restricted funds for any purpose other than the designated purpose. Christopher interpreted the policy to mean that funds being raised for specific projects are recorded and reserved for that use. The only such project at this time is the awning, and the marketing manager is keeping a record of those funds. The board thought the manager's interpretation of the policy was reasonable, the data was adequate and demonstrated compliance.

Policy L5.3 and its subparts address the co-op's ability to meet cash needs and financial obligations in a timely way. Christopher interpreted that liquidity could be measured by the current ratio (ratio of current assets to current liabilities), available cash, and working capital, all of which were satisfactory. The current ratio for the first quarter was above target at 3.22, but this was due to the co-op's receipt of the funds for the sale of the old building. The first year's current ratio for the new store is projected to be 1.53 (\$1.53 in current assets for every \$1.00 in current liabilities). Christopher stated that due to an accounting error, a few loans were not included in the ratio. This would bring it down to some extent. Christopher reported that accounts payable and loans payable were being met and that accounting systems were in place to assure timely payment. He also reported that income and property taxes were paid on time in the past year. There was a recent error in payroll withholding for one period in February, due to a water leak that disrupted computer operations in the administration office, but the error was corrected. The board discussed what level of detail it needed on operational errors that were already corrected. It would depend on the magnitude of the error and its impact on the co-op. Board members can be held personally liable for unpaid taxes, so the board should be informed of any non-compliance with tax filings. The board treasurer has a duty under the bylaws to assure that taxes are paid. Joan will meet with Christopher to review the tax documents and will report to the board. The board thought the manager's interpretations of Policy L5.3 and its subparts were reasonable, the data was adequate and demonstrated compliance.

Policy L5.4 directs that the manager will not allow operations to generate inadequate income. Christopher reported that he did not have sufficient data to report compliance or noncompliance with this policy. He still needed to review the financial statements with the bookkeeper and finance manager. However, he indicated that sales for the year may not reach the projected \$3.5 million. He thought sales of \$3.2 million were more likely. First quarter margin, without the free fill from vendors for the new store opening, would have been below target. Labor costs for the quarter were above target. Christopher will talk with Steven Wolf about the first quarter figures. The board would like to have an updated report on compliance with this policy. Christopher's report alerted the board to an area of concern.

Policy L5.5 relates to generating sufficient member equity. The co-op is well placed to meet the common share goal of \$20,000 for the year. The Sources and Uses budget was about \$9000 short in preferred share sales. This shortfall will likely be met though additional membership common share and preferred share sales during the year. The board thought the manager's interpretation of the policy was reasonable, the data was adequate and demonstrated compliance.

Policy L5.6 states that the general manager will not acquire, encumber or dispose of real estate. Christopher interpreted this to mean that real estate transactions must be approved by the board. The only real estate transaction during the reporting quarter was the sale of the old store building, which was done by written direction of the board. The board thought the manager's interpretation of the

policy was reasonable, the data was adequate and demonstrated compliance.

Policy L5.7 states that the general manager will not allow the financial record keeping systems to be inadequate or out of conformity with generally accepted accounting principles (GAAP). Only an independent audit would fully verify compliance. Christopher thought the financial systems in place generally met the conditions he set out in his interpretation of the policy, except that they did not consistently supply the information needed to produce financial statements within six to seven weeks of the close of the quarter. Also, there were some mis-allocations of product categories during inventory and when products were received. The board agreed that the co-op should work toward having an outside audit on a regular basis. An financial statement review would be a first step. That would provide recommendations on what would be required for a full audit. The co-op is not compliant on record-keeping, so it is not compliant on this policy as a whole. Adequacy of record keeping and conformity with GAAP are separate issues in determining compliance. The board recommended that Christopher budget for an financial statement review, then perhaps have a full audit a few years down the road (estimated cost \$15,000). The board thought the manager's interpretation of the policy was reasonable and the data was adequate. It demonstrated Christopher's report of noncompliance on this policy. There was an acceptable plan for remediation, but not a time line. The board requested future monitoring of remediation when the items are accomplished. Joan asked about whether the POS system could do a perpetual inventory. Christopher thought it was not accurate enough and would be labor intensive.

Joan moved to accept the manager's monitoring report on Policy L5 showing one instance, on Policy L5.7, of serious noncompliance, and to request future monitoring of remediation on L5.7 from the manager. Toni seconded. Approved unanimously.

Sales Update / Sales Improvement Report – Toni moved to table this item until the next meeting, as the board did not have time to review the report. Georgie seconded. Approved unanimously.

Report on Staff Survey – A survey team has been formed and is scheduled to meet soon. The survey should go out sometime in July. The general manager's report on Policy L2, Staff Treatment, is scheduled for September. The survey results should be ready by then.

Staff-Board Contact – Steve P. reported on a consultation he had with two advisers from Cooperative Board Leadership Development (Mark Goehring and Bentley Lein) about when it is appropriate for board members and staff members to communicate directly, rather than through the general manager. The board should hear from staff members directly if: 1) they are reporting a violation of the law being committed by the general manager; 2) they are communicating about things the board has agreed to do as part of their job (Scoop article deadlines, etc.); or 3) they are sending a communications that goes to all co-op members on informative issues. If the employee is requesting board intervention to resolve something in store operations, the board member should refer the employee back to the employee policy manual. If no policy exists on the issue, the policy manual provides for a grievance procedure to seek policy. If the employee seeks to discuss the general manager's competence, the board member should not discuss particulars but advise the employee that the board is monitoring the general manager and the store's performance. The board has previously discussed whether it would seek staff input for the board's annual evaluation of the general manager this year and agreed that it would not. Christopher will be having a staff survey done for management purposes, and he will report the results

as part of his annual report on staff treatment. The survey results should be compared to other co-ops who have recently undergone an expansion.

Staff can approach the board with concerns they have as co-op members. They need to follow internal store procedures to address concerns they have as staff members. Jana K. suggested that it may be hard for the board and staff to separate those roles. The board thought the appropriate test would be whether the matter involved the co-op's ends (its mission and values) or store operations. All parties will need to acknowledge difficulty of the staff/board communication relationship. Board members should not create false expectations that they can intervene to resolve complaints, whether from staff or members. Individual board members have no authority outside of board meetings, where they act as the board. Items that come to individual board members should be presented at board meetings rather than dealt with by an individual board member. Members should be encouraged to put their concerns in writing, so that the board can see them directly, rather than have them be summarized and possibly miscommunicated through individual board members. The board's responsibility is to monitor the manager's performance, monitor the co-op's financial health, and see that the operation is successful. It does not run the store.

Board minutes and the board policy manual will be posted on the website. Christopher can pass on to staff a summary of this board discussion.

Form Nominations Committee – Georgie and Toni were appointed to be the Nominations Committee.

Georgie moved to table the discussion of committees and charters and the ends policies. Toni s. Approved unanimously.

Next Month Monitoring Report – Steve P. will do the board monitoring section for June. Georgie and Joan will do the section for July. The general manager monitoring report on ends policies can be omitted, because the board is still working on that section of the policy manual.

Georgie moved adjournment. Joan seconded. Approved unanimously. Meeting adjourned at 8:30 p.m.

Next meeting is Tuesday, June 24, 2008 at the Spectrum Building. Future meetings after that will be at the Oneota Co-op meeting room.

Respectfully submitted:  
Onita Mohr, secretary  
Arllys Adelman, Scribe

Documents Reviewed:

- Agenda
- Minutes, April 29, 2008, regular and executive session
- Policy G4 Monitoring Report, Board Code of Conduct
- Policy L5 Monitoring Report, Financial Condition (Quarterly financial report)
- Statement of Cash Flows, January-March 2008
- Profit and Loss, January-March 2008

Balance Sheet January-March 2008  
Sales Recap May 1 through May 21, 2007 and 2008