

ONEOTA COOPERATIVE BOARD MEETING
SPECTRUM NETWORK
July 28, 2009

Board members present: Lyle Luzum, Onita Mohr, Toni Smith, Joan Leuenberger, Birgitta Meade, Georgie Klevar.

Absent: Steve Peterson

GM present: Troy Bond

Eleven co-op member/owners were present.

President Lyle Luzum called the meeting to order at 5:04.

Agenda Review: There were no additions to the agenda. Toni moved to approve the agenda. Georgie seconded. Approved unanimously.

Member Comments: Laura Kemmer asked that the board minutes be timely posted on the OCC website. Steve McCarger handed out to the board a copy of a letter he had received from Troy Bond regarding in-store conduct. He said he would like to meet with Troy and Lyle about it. Steve M. asked that the board respond to his May letter to the board regarding financial disclosure and the copy of a letter about personnel matters he had given to the board in June.

Board Member Comments: Lyle said the topic of financial disclosure had been on the board agenda the last two months. The board is addressing it. Onita said there had been technical difficulties with getting board minutes on the OCC web site. Troy thought those were resolved, so the minutes could be posted.

Approval of Minutes: Toni moved to approve June 23, 2009 regular board meeting minutes. Joan seconded. No discussion. Approved unanimously.

GM Policy Monitoring Policy L5, Financial Condition (quarterly monitoring report): Troy Bond provided a written report to the board. Lyle said the written reports are generally provided to the board in advance, but he had internet difficulties over the weekend. Not all board members had received the L5 report in advance, but they were willing to go ahead with the monitoring review.

Generally, the monitoring reports would be put on a consent agenda. If there were questions about interpretations, data or conclusions, the report would be taken off the consent agenda and put on the regular meeting agenda for discussion. Questions about interpretations of the policies may go back to whether the policy is adequate and needs to be changed.

The financial condition monitoring report includes sections on sales, net income, liquidity, solvency, encumbrance of debt, real estate transactions, tax payments and filings, timeliness of payments, use of restricted funds, and financial record keeping.

Second quarter sales were \$820,995, an increase of 2.56% over 2008. Year-to-date sales increased 3.82% compared to 2008. There have been substantial increases in sales in wine/beer, cheese, deli, nutritional supplements and bakery. Weekly sales have shown a steady trend upwards since the beginning of the year, indicating that marketing and merchandising efforts are working. Troy reported

that there were record high sales in the last week. He commended the OCC staff for its work during Nordic Fest and commended all of those who worked on the creation of the new co-op facility. Lyle said he had also heard many complements on the store from visitors to Nordic Fest.

Second quarter net income was \$2924, compared to negative \$6780 for first quarter 2009 and negative \$111,000 for second quarter 2008. The improvement in net income is due to a combination of factors, including expense control (mostly labor cost reductions), increased gross profit and strong margin. There was also a one-time adjustment to report savings on the medical spending for 2008. The cost of labor, including taxes and benefits, was 25.3% of sales, compared to 33.8% last year.

The measures for liquidity are the current and quick ratios and cash. The current ratio for second quarter 2009 was 1.12, up from 1.03 in the first quarter. The quick ratio was .31, down from .41 in the first quarter. Industry standards for current and quick ratios are 1.95 and 1 respectively. Cash declined about \$38,000 from first quarter 2009. The decreases in the quick ratio and cash were due to some increase in inventory and decreases in accounts payable. OCC is completing some projects left over from the relocation and repairing existing equipment issues as needed.

Solvency is generally measured in the debt-to-equity ratio. The long-term viability of the co-op should not be jeopardized by taking on too much debt or generating too little equity. The debt-to-equity ratio at the end of the second quarter was 3.49, down from 3.76 at the end of first quarter 2008. The benchmark for a healthy ratio is 3 or below. The improvement in the ratio was due to an increase in equity, including a \$12,000 increase in member shares, and a decrease in overall liabilities of \$54,000 from accounts payable and the one-time medical spending adjustment. The debt to equity ratio is at its lowest level in a year.

No debt has been incurred that would need board approval. No real estate was purchased or sold. There have been no late tax filings or payments. There have been no late payments on any other financial obligations. Restricted funds have been used only for their intended purpose. The awning fund is the only such fund the coop has.

With regard to the OCC's record keeping being in compliance with generally accepted accounting principles, the Co-op had its first ever audit review this spring. Morrison and Associates CPA provided a written report to the board in July. The financial review indicated that the accounts tied out well, and the recommended accounting adjustments have either been made or are being made.

Birgitta joined the meeting at 5:30. She apologized for mistaking the time that the meeting started. She was prepared to proceed on the L5 report.

Board members either received the report in time to review it or had sufficient opportunity to review it during the Troy's presentation. The interpretations were reasonable, the data was sufficient and supported the determinations regarding compliance. Toni moved acceptance of the report. Georgie seconded. Approved unanimously. Monthly monitoring will continue on sales, net income, liquidity and solvency.

Board/GM Policy Monitoring Policy D2, Accountability of the General Manager: Onita had done the monitoring report. Lyle summarized it. The general policy statement is that the GM is the board's only link to operational achievement and conduct. All authority and accountability of staff, as far as the

board is concerned, is the authority and accountability of the GM. Policy D2.1 states the board will not give instructions to persons who report to the GM. Policy D2.2 says the board will not evaluate any staff other than the GM. Policy D2.3 says the board will view the GM performance as identical to organizational performance.

Interpretations and data. For Policy D2.1, the board should not undermine the GM's authority in store operations by giving work directives to store employees. The board self-reported that it gave no work directives to staff about operational matters. Board members do require the assistance of administrative staff for some aspects of the board's work, and the board has given tasks to staff for these purposes with the knowledge and consent of the GM. Compliance reported.

For Policy D2.2, the board will not do performance evaluations on any staff other than the GM or attempt to influence the evaluations of other staff. The report noted that there had been rare instances of board members expressing concern to the GM about staff member work performance when it appeared that it could impact store operations. Birgitta wondered if the report was sanitizing the facts. If one or more board members had talked to Troy about staff performance, wouldn't that indirectly influence the staff member's work evaluation? Toni thought reporting the incidents brought them to the board's attention and Troy's as something to watch out for. Troy said he had been the source of this information. He had not found the board contact inappropriate as it concerned a staff member's possible breach of confidentiality. Compliance was reported.

For Policy D2.3, the board will measure the GM's performance by the Co-op's performance in meeting organizational ends while not violating proscribed means. Compliance or noncompliance with the board policies will form the basis for the board's evaluation of the GM. The board is in its first full year of using this evaluation procedure. It has adopted the concept that the GM's evaluation will be based on the cumulative reports monitoring the Co-op's performance. Compliance reported.

Board members received the report in time to review it. The interpretations were reasonable, the data was sufficient. The board agreed that compliance could be reported, with a note that the board should be mindful on the issue of discussing staff performance with the GM. Joan moved acceptance of the report. Toni seconded. Approved unanimously.

Board/GM Policy Monitoring Policy D3, Delegation to the General Manager: Steve P. had done the report. In his absence Lyle summarized it. The general policy statement is that the board will instruct the GM through written policies that set out organizational ends or goals to be achieved and organizational situations and actions to be avoided, allowing the GM to use any reasonable interpretation of the policies. Policy D3.1 states the board will develop policies instructing the GM to achieve certain results, for certain recipients, at specified costs, and these policies will be know as Ends. Policies that are not Ends are means issues. Policy D3.2 says the board will develop policies that limit the latitude the GM may exercise in choosing organizational means. These will be know as Executive Limitations. The board will not prescribe organizational means delegated to the GM. Policy G3.3 says that as long as the GM uses any reasonable interpretation of the policies on Ends and Executive Limitations, the GM is authorized to establish all further policies, make all decisions, take all actions, establish all practices and develop all activities, and such decisions will have the full force and authority of the board. Policy G3.4 says the board may change the Ends and Executive Limitations policies, thereby shifting the boundary between Board and GM domains. By doing so, the board changes the latitude of choice given to the GM. As long as any particular delegation of authority is in

place, the board will respect and support the GM's choices.

Interpretations and data. For Policy G3.1, the board should have Ends policies. The draft Ends policies have not yet been approved. The Vision and Values statement from the prior board policy manual has been used in the interim. Compliance was reported because the Ends policies are in process.

For Policy G3.2, the board must communicate its intentions through written Ends and Limitations policies. If it wishes to tighten or loosen control over the GM's reasonable interpretations of policies, it needs to do so through changes in the written policies. There have been no reported instances of the board limiting organizational means other than through written policies. Compliance reported.

For Policy G3.3, the GM provides monitoring reports to the board stating his interpretations of the ends and limitations policies. As long as the interpretations pass the "reasonable person" test, the board will accept them. The GM has not reported any instances of being hindered from making decisions within the policy structure. The board has, on occasion, been critiqued by member/owners for delegating too much authority to the GM. The board has reflected on its role with regard to delegation of authority and has engaged in discussions about changing or clarifying policies. Compliance reported.

For Policy G3.4, the board has the authority to revise policies and tighten or loosen the limitations on the GM. Until such revision is done, however, board member will support all reasonable interpretations of existing policy without undermining the GM through back channels. There have been no reports of inappropriate interference in GM decisions by board members. The board has revised one policy and is discussing other revisions. Compliance reported.

Birgitta noted that the data for Policy 3.3 says the board had engaged in discussion about revising policies as a result of comments or criticism from the membership. She was interested in what discussion the board had had about the delegation of authority to the GM. Lyle said the board had looked at the implications of suggestions it had received from members as to limitations on the GM's authority. What formulation of the policy statements would be better than what we have now? The board did not see a benefit to changing the policy. It has been substantially the same since 1996. The "reasonable person" standard for interpreting policy is not unusual. Onita said the reasonable person standard was a legal standard.

Birgitta thought some members might want some additional words in the Ends policies about the goals of the organization and member input into decision making.

The board agreed the interpretations were reasonable, the data was sufficient and supported the reports of compliance. Georgie moved to accept the report. Joan seconded. No further discussion. Approved unanimously.

Committee Report – Board Development: Birgitta, Steve M. and Joan are the board member on the committee. Birgitta reported that there are four member/owners willing to work on the committee to recruit board candidates. She said she had been traveling the last two weeks and stopped at co-ops on her way. She had some interesting conversations with their GM's and board members. She thought it might be useful to look to former co-op board members when recruiting candidates.

Committee Report – Ad Hoc Bylaw Review: Lyle reported that the committee had met and identified about ten bylaws that need to be changed. He, Joan and Onita are the board members on the committee. The board agreed that any changes to the bylaws should be subject to a membership vote for approval. There is an alternative method for amending bylaws, by unanimous vote of the board, but the board thought it would be better to have a membership vote.

Committee Report – “member in good standing”: Georgie reported. Article 2 says a member is in good standing if he or she has a fully paid membership or is current on a membership share purchase agreement. The difficulty lies in determining when the members who are not fully paid are “current” on the share purchase agreement. All share payments used to be due at the same time, at the beginning of the fiscal year. They are now due on the anniversary of the member joining. Having a uniform due date for all members would simplify things for cashiers and would make the “good standing” question easier when determining voting eligibility.

The board did not have a sample of the member share purchase agreement. It will need to review the agreement to see what it says as to the due date of the installments. Onita thought if the current purchase agreement locked in a due date for share payments, the board could only change the agreement to have a uniform due date prospectively, not retroactively.

Policy L3, Compensation and Benefits – technical corrections: Consultants Carolee Coulter and Mary Courteau did a monitoring report for the board last year in connection with Staff Compensation and Staff Treatment policies. They offered two suggestions for changes to the policies. The change to the global statement in Policy L3 would be to delete the word “employment” from the first line. The change to Policy L3.2 would be to move it to L2, staff treatment.

Toni moved to delete “employment,” from the Policy L3 global statement. Georgie seconded. No discussion. Approved unanimously.

Georgie moved to renumber Policy L3.2, moving it from Policy L3 to L2 as a newly numbered section, L2.5. Joan seconded. No discussion. Approved unanimously.

Policy change recommendation, Policy G4.4, Board Code of Conduct: The board had received a draft proposal from Steve P. for a change to Policy G4.4, regarding what information shall be construed as “public.” The current definition says approved minutes and end-of-year financial information are public. The proposed change would allow an abstracted quarterly report summarizing the Profit and Loss Statement and the Balance Sheet to be considered public information.

Lyle asked for comments. Joan suggested adding only “and an abstracted quarterly report” and leaving out where it must be made available. An owner/member asked if members could see the content of the proposed change. The board agreed that the proposed change would be posted on the board bulletin board, in the board binder and sent out on the Comm Post. The proposed board interpretation of the policy would be left off of the posted versions.

Birgitta asked if the abstracted financial reports would answer Steve McCarger's questions in his letter to the board from May. Lyle said he was not sure that they would fully answer Steve M.'s issues. The suggested questions Steve M. proposed are pertinent to the board's due diligence function, but they are not necessarily things the general membership needs to have access to.

Georgie moved to delete the last part of the proposed change, beginning with "...that can be read..." to the end of that sentence. Toni seconded. Discussion. Birgitta thought there were separate issues, the change of policy and what was the end product. Joan thought the policy should be kept general and easy to use. The motion was approved unanimously. The proposed change in Policy G4.4 will be discussed at future meetings before any final decision is made.

Resolution to designate safe deposit box access: The Co-op's safe deposit box has an outdated list of people with access. The board thought it would be better not to name individual persons to the access list. Georgie moved to authorize the GM and the GM's designees to have access to the Co-op's safe deposit box. Toni seconded. Approved unanimously. Onita will prepare an abstract of the minutes of this resolution so that Troy can take it to the bank.

Next month's board monitoring: Lyle will do Policy G7, the president's role, and Steve P. will do Policy G8, the vice president's role. Troy will do Policy L3 and the continuing update on L5.

Board retreat: The board will have a retreat on the topic of change on August 19, 2009, from 4:00 to 8:00 at the co-op meeting room.

Executive session (personnel, legal): Georgie moved that the board go into executive session to discuss personnel issues, legal process and member comments. Birgitta seconded. Approved unanimously. The board entered executive session at 6:45 p.m. The board discussed pending issues. Georgie moved to leave executive session. Toni seconded. Approved unanimously. The board left executive session at 8:58 p.m.

Next meeting: August 25, 2009 at Spectrum Network.

Adjourn: Joan moved to adjourn. Toni seconded. Approved unanimously. Meeting adjourned 8:59 p.m.

Onita Mohr, board secretary

Documents reviewed:

- Agenda
- Minutes, June 23, 2009, regular meeting
- GM Report and Policy L5 Financial Condition report (quarterly)
- Policy D2 report, Accountability of the GM
- Policy D3 report, Delegation to the GM
- Policy L3, Compensation and Benefits, proposed changes
- Policy G4.4, Board Code of Conduct, proposed changes