

**Willimantic Food Co-op  
Meeting of the Board of Directors  
August 9, 2018**

**Directors Attending:** Kirk Begg, Linda Brock, Alice Rubin, Kathleen Krider, Nancy McMerriman, Raluca Mocanu

**Absent:** Joanne Todd, Charlotte Ross

**Others Attending:** Patty Smith, Penny Barton-Zuckerman, Steve Murphy, Roxana Mocanu (scribe)

**Call to Order:** 7:09 pm

Agenda Item	Resolution
<b>Approve Minutes</b>	
July Board meeting minutes Discussion: none	<i>July minutes approved</i> (moved: Linda; second: Nancy)
<b>Future Board Meeting Agendas</b>	
<ul style="list-style-type: none"> <li>• September’s agenda will include: preparing for the Board retreat (focusing on Ends), Expansion update, monitoring reports</li> <li>• Keri Gallery is unavailable on Sept 6, so the Board meeting will be held at Kathleen’s house</li> </ul>	<i>Action: none</i>
<b>Adequate Net Income</b>	
<ul style="list-style-type: none"> <li>• Policy B.3, item 2, states: “The GM will not allow operations to generate an inadequate net income.”, but it does not specify what constitutes inadequate net income.</li> <li>• A study-group was formed in Nov 2017 to gather relevant information and present it to the Board for discussion.</li> <li>• Net income is calculated by subtracting total expenses from total revenue. It is the “bottom line”. Inadequate net income would mean that: <ul style="list-style-type: none"> <li>◦ there is not enough money to cover the expenses (i.e. unable to pay the bills)</li> <li>◦ there is not enough money saved up to achieve the Coop’s goals (such as expansion).</li> </ul> </li> <li>• Net income constitutes a reserve of money that may be used for: <ul style="list-style-type: none"> <li>◦ protecting a business against risks, such as unexpected losses and unplanned/catastrophic events</li> <li>◦ planned expansion</li> </ul> </li> <li>• The Board reviews policy B.3 on a quarterly basis, while the budget covers the span of a whole year. One quarter may experience a loss, while the following quarter may experience strong growth that offsets that loss. Policy B.3 needs to be updated to clarify that the GM will not allow operations to generate an inadequate net income <i>annually</i>.</li> <li>• The updated policy B.3 needs to clearly state that the GM will not allow operations to generate an</li> </ul>	<i>Action: none</i>

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inadequate net income *considering the needs of the Coop in the current fiscal year, and in keeping with the ends.*

- WFC is currently in a good financial position and has experienced higher than budgeted growth (and net income) in the recent past. (2018 ytd growth is 7% at the end of June, compared to 3% growth planned in the budget.) However, there is no guarantee that this will continue. As we advance with the planned expansion, expenses will increase, and we are anticipating losses as a result.
- WFC does not have a target or goal for net income. The budget is planed with the intention of not losing money. When net income ends up higher than anticipated, measures are put in place near the year's end in an attempt to reduce tax liability while maintaining adequate reserves to meet future goals. Staff bonuses are an effective way of addressing high net income. Member discounts and lower prices have also been implemented to address higher than expected net income.
- To achieve adequate net income, the Management team is:
  - using the budget planning process to predict growth for the following year
  - avoiding excessive net income (with the intent of lowering our tax liability), while maintaining a reserve of money sufficient to meet long-term goals (such as expansion)
- NCG (National Cooperative Grocers) has set a benchmark for adequate net income, stated in terms of EBITDAP (Earnings Before Interest, Taxes, Depreciation, Amortization, and Patronage). [Note: WFC does not pay patronage, and does not pay interest at the present time. We also don't use amortization, so the difference between EBITDAP and net income is taxes and depreciation.] *NCG's benchmark for a healthy co-op is an EBITDAP of 6% of sales.* WFC's net income and EBITDAP numbers:
  - *before* staff bonuses were allocated:
    - 2017 EBITDAP = 4.56% of sales
    - 2017 Net income = 2.97% of sales
  - *after* staff bonuses were allocated:
    - 2017 EBITDAP = 3.23% of sales
    - 2017 Net income = 1.56% of sales
- Setting a target value for the net income is challenging and may not be the best approach, because there are many variables and changing circumstances that can affect this number.
- In the past, some WFC members have expressed concerns about what they perceive as excessive net income or profit, suggesting we should significantly reduce or eliminate the net income (by significantly reducing prices, and/or redistributing the

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<p>accumulated net income). The Board needs to establish a clear understanding of what constitutes adequate net income, to explain to members why this reserve of money is important in meeting our strategic goals and reducing risk (ensuring the long-term health of the Coop), and to communicate how the WFC has used the net income to benefit the members, the staff, and the local community. The Board feels that communication with our members is key to building trust and productive relationships. Our membership consists of a very diverse population (over 7000 members), and the success of our Coop hinges on trust.</p> <ul style="list-style-type: none"> <li>• Need to create a working document (for internal Board use) summarizing this discussion on net income. This document will: <ul style="list-style-type: none"> <li>◦ establish a basis for common understanding, and serve as future reference.</li> <li>◦ be specifically referenced in policy B.3, and will be included as an appendix to Policy Governance.</li> <li>◦ include guidelines for various financial situations (for example, when the Coop is in debt vs. when it is experiencing strong growth).</li> <li>◦ be referenced by the Board training manual. (The Board training manual will document the process and procedures to be carried out for achieving the policies specified in the Policy Governance manual).</li> </ul> </li> </ul>	<p><i>Action: Linda and Kirk have volunteered to create a document summarizing the net income discussion.</i></p> <p><i>Action: The Management team (Alice, Patty, and Penny) to suggest simple wording to be included in Policy B.3 to clarify “adequate net income”.</i></p> <p><i>Action: Kirk to keep the net adequate income topic on the agenda</i></p>
<b>Old Business</b>	
<p><b>Expansion Project Update:</b></p> <ul style="list-style-type: none"> <li>• Alice sent out the latest proposal from C&amp;H Architects for the Board to review.</li> <li>• C&amp;H Architects will develop conceptual designs for several different scenarios, and will evaluate the potential for net-zero energy for each option</li> <li>• C&amp;H Architects will be presenting at a future Board meeting.</li> <li>• Next steps: <ul style="list-style-type: none"> <li>◦ GM will combine the pro-forma (financial information) with the kitchen/prepared foods program information, and present it to the Board with a recommendation on how to proceed.</li> <li>◦ The Board will decide if the project meets all the criteria, is financially prudent, and is in the best interest of the Coop as a whole.</li> <li>◦ Once the going-forward plan has been clearly defined, the Board will decide how to present it to the membership.</li> </ul> </li> </ul>	<p><i>Action: Alice to clarify with C&amp;H architects the following statement on page 4 of their proposal: “we have received the inspection report... and note that only building areas were inspected, and no assessment of soil... was conducted.”</i></p> <p><i>Motion to authorize GM to sign contract with C&amp;H Architects for preliminary proposal (moved: Linda, second: Kathleen, abstained: Alice)</i></p> <p><i>Action: Alice will continue to report to the Board monthly on the Expansion Project</i></p>

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<p><b>Member Financial Benefits: Non-member Surcharge</b></p> <ul style="list-style-type: none"> <li>• this has been an ongoing discussion. In Jan 2015, the Board indicated that this is an operational decision.</li> <li>• Years ago, a group of members studied the non-member surcharge, and found that most cooperatives do not charge a non-member surcharge</li> <li>• Alice recently wrote a newsletter article (Summer 2018, vol. 40, #2) on the topic of the non-member surcharge, asking for member input.</li> <li>• The results of the wooden nickle in-store voting were inconclusive. Also, the voting did not ensure that each member only got one vote, so the results may be biased. If we want an accurate vote, we will have to include it on the ballot at the Annual Meeting. Prior to the Annual Meeting, the Board will need to communicate with and educate members on this issue.</li> <li>• Alice will write an update for the next newsletter.</li> </ul>	<p><i>Action: Alice to share the feedback she has received on the topic of non-member surcharge with the Board</i></p> <p><i>Action: Alice to write an update to be included in the next newsletter</i></p>
<p><b>Executive Session</b></p>	<p>None</p>
<p><b>Meeting adjourned</b></p>	<p>9:03 pm</p>