

**River Market Community Co-op
Board of Directors
Minutes of Regular Meeting
September 13, 2022
Washington County Heritage Center**

Directors Present:

David Mickelson, Victoria Bradford Styrbicki, Mead Stone, Christina Arndt, Karen Hulstrand, and Larry Martin attended in person; Angela Hauge and Scott Vrchota participated remotely via Zoom.

Directors Absent:

None

The Directors present constituted a quorum.

Others Present:

Attending in-person:

Sara Morrison, River Market Community Co-op (RMCC) General Manager

Pat Rossez, RMCC Board Administrative Assistant

Luke Stiller, RMCC Owner

Emily Krawczewski, Washington County Heritage Center Site Manager

Attending remotely via Zoom:

Sarah Budenske, Budenske CPA, Ltd.

Call to Order

Mr. Mickelson called the September 13, 2022 meeting of the RMCC Board of Directors to order at 6:00 p.m. He then introduced Ms. Krawczewski and, given that this is the first meeting being held in this facility, asked that she introduce the Heritage Center. She gave the Board an overview and history of the Center and invited Directors to tour the building. Mr. Mickelson thanked her and she left the meeting.

Owner Comments

Mr. Mickelson welcomed the owner, Mr. Stiller, and asked if he would like to make any comments. Mr. Stiller stated that he is a candidate for the Board and is attending to observe another meeting. Mr. Mickelson then thanked Mr. Stiller for joining the meeting. There being no points of order, Mr. Mickelson moved to the next Agenda topic.

Consent Agenda / Pulled Reports

Mr. Mickelson called upon Directors to identify any reports for removal from the Consent Agenda. Ms. Hauge asked that the B1-Q4 report be pulled, Mr. Stone asked to pull the C&D Report Recap, and Ms. Bradford Styrbicki asked to pull the Growth & Engagement Committee report.

Auditor's Financial Review

Ms. Morrison introduced Ms. Budenske, commenting that she has been RMCC's CPA for several years. Ms. Budenske shared that she has deep experience providing accounting services to co-ops and proceeded to explain Reviewed financial statements and how they are prepared. She highlighted sections of the letter addressed to the Board, explaining the following topics and their significance:

- Estimates and significant adjustments that were made
- Disclosure of a major vendor (UNFI)
- A change in how leases will be treated next year (the lease will be included in the balance sheet as an asset and the rent payments will be categorized as a liability, rather than be recorded as an expense)

Ms. Budenske then went through the 'Notable Financial Metric' presentation that she provided, which illustrates the key financial performance measures that she uses to gauge an organization's health. The past three years' results for the following metrics were included and Ms. Budenske compared current results to industry benchmarks:

- Current Ratio (1.74, well over the benchmark of 1.2)
- Gross Margin (decreased slightly, likely due to inflation and seen in other co-ops as well)
- Labor Ratio (under goal of 20%; this may not be healthy, possibly due to short staffing)
- Debt to Equity Ratio (excellent level as debt is repaid)
- Long-Term Debt (continues to fall)
- Current Portion of Long-Term Debt (reflects what is due in one year)

In most instances RMCC's results compared favorably to benchmarks and Ms. Budenske commented that overall, the metrics are healthy signs, despite lower gross margins and low labor costs.

Moving to the 'opinion letter' page of the report, Ms. Budenske noted that no modifications are needed to the financial statements to be in accordance with generally accepted accounting principles. She also noted and that the GM and staff were helpful in preparing the financials.

Ms. Budenske then discussed the balance sheet, calling out and explaining assets and liabilities that had changed significantly over the past year. She also noted that the increase in cash provides a cushion of liquidity that makes operations less stressful. She pointed out that Property and Equipment has decreased, indicating that those assets have been largely depleted (depreciated), potentially signaling that equipment may need replacement. She asked if there are plans to make any equipment investments, to which Ms. Morrison explained budgeted plans for purchasing Produce department fixtures and reconfiguring the store to make better use of the space. She also shared that the recent oven purchase was unplanned but made as a result of RMCC's strong cash position.

Regarding liabilities, Ms. Budenske commented that Accounts Payable have risen, but are being paid in a timely manner with no past due accounts. She also noted that Payroll and time off is a large amount, consisting largely of accrued vacation/paid time off (approximately \$50,000). Current portion of long-term debt and long-term liabilities are both falling as payments are made on the co-op's bank note, which has roughly 2.5 years remaining. Next, Ms. Budenske explained how the Accumulated Deficit is determined and pointed out that while progress has been made, from RMCC's inception through June 30, 2022 the co-op has not been profitable overall. A Director then asked Ms. Budenske if the Accumulated Deficit being a negative amount prevents RMCC from giving a Patronage Refund; she responded yes, and then explained how the co-op is still earning back/catching up on the losses previously experienced. She also explained the loss carryovers that are still available to offset tax liabilities on future profits.

Ms. Budenske called out significant changes in the Income Statement, including the sales growth, a slight decline in Gross Profit, and declining Operating Expenses as a percentage of sales. This has resulted in a higher level of Income From Operations. She noted that Net Income of \$59,457 is down from the prior year due to the PPP loan forgiveness that occurred in fiscal year 2021.

Ms. Budenske also highlighted key activity in the Statement of Membership Equity and the Statement of Cash Flows, noting that overall RMCC has experienced a nice increase in cash flow. She also commented on several items in the Notes to Financial Statements:

- Nothing has changed in the Accounting Policy but reminded Directors that next year the lease will be treated differently.
- There is a Concentration of Risk, called the Joint Liability Fund, resulting from the Purchasing Agreement with National Coop Grocers (NCG), given that they are a major supplier from whom the co-op purchases 52% of saleable items: if ever needed, they would be difficult to replace on short notice.
- While explaining the Investment in Other Cooperatives, a Director asked for more details regarding RMCC's liability regarding the Joint Liability Fund (JLF), to which Ms. Morrison replied that the JLF is no longer divided into corridors, it is now one national pool for all members of NCG. Ms. Budenske noted that some smaller co-ops have failed, but since large ones have not, there has not been a significant impact on the JLF guarantee.
- Long-Term Debt continues to be paid down.
- Members' Equity describes the stock structure.
- Income Taxes show a net operating loss carry-forward, some of which will eventually expire, and she explained how they will likely be applied.
- Leasing Arrangements reflect an amendment to the lease, which included two lease extension options of five years each; the accounting treatment will change next year.

In summary, Ms. Budenske that RMCC had a healthy, stable year again, despite inflation and the job market.

Ms. Budenske completed her presentation and Mr. Mickelson opened the floor for questions or comments. Mr. Mickelson asked Ms. Budenske what areas RMCC could concentrate on for

improvement. Ms. Budenske responded with Paychex's payroll services as they generated incorrect reporting and notices and they were difficult to work with. Ms. Morrison corroborated this with additional background and details on the reporting errors that Paychex made. In October RMCC will switch vendors from Paychex to Paylocity.

Mr. Mickelson then asked what the board should know that did not appear in her report. Ms. Budenske replied that there was nothing; if there was, she is required to disclose it. He then asked her to respond to the following statements, stating whether they were true based on her review of the financials.

The General Manager will not:

1. Allow liquidity, or the ability to meet cash needs in a timely and efficient fashion, to be insufficient.
TRUE
2. Allow solvency, or the relationship of debt to Member-Owners' equity, to be insufficient.
TRUE
3. Incur debt other than trade payables or other reasonable and customary liabilities incurred in the ordinary course of doing business.
TRUE
4. Allow tax payments or other government-ordered payments or filings to be overdue or inaccurately filed.
TRUE
5. Allow late payment of contracts, payroll, loans or other financial obligations.
TRUE
6. Use restricted funds for any purpose other than that required by the restriction.
TRUE
7. Allow financial record keeping systems to be inadequate or out of conformity with GAAP. (Generally Accepted Accounting Principles)
TRUE

Mr. Mickelson thanked Ms. Budenske for her work and the presentation. Discussion followed regarding how the financial statements are shared with owners.

Ms. Budenske left the Zoom call.

A Director asked if a motion is needed to not pay a patronage dividend this year. After a discussion it was concluded that a motion is not needed but it would be appropriate to include an explanation at the annual meeting regarding why a patronage dividend is not being paid. Mr. Mickelson then moved the meeting to the next item of business: the BOD/GM Open Discussion.

BOD/GM Open Discussion

Ms. Morrison provided commentary on several topics not contained in the General Manager's report. First, she expounded on the replacement of Paychex with Paylocity as the provider of payroll and time and attendance services. Ms. Morrison described the services that had been provided, issues that were encountered, research conducted on alternative vendors, and timing of the transition to the new vendor. Influencing the selection of Paylocity was favorable feedback from peers who use their services and the fact that they have a local representative. During the discussion, Ms. Morrison reported that employees were not negatively impacted by Paychex's mistakes; the HR Manager was most impacted as he spent considerable time correcting Paychex's errors; and the errors were made in IRS reporting only and did not include any actual cash payments or transfers of funds.

Next, Ms. Morrison shared that a new credit card processor will be needed because of changes NCG is making to their gift card program, which is sunsetting at the end of next year. Until then, RMCC will be able to redeem NCG's gift cards, but will no longer be able to sell them, so a new processor with gift card sales functionality is needed. Benefits of this change are that the co-op can start anew with the PCI compliance mapping (which is done) and the co-op will get better pricing. In response to a Directors' questions regarding the cards and the fees credit card processors charge, Ms. Morrison described typical fees and the factors that influence them

Lastly, Ms. Morrison reminded the Board that Columinate's early-bird pricing deadline is coming up in October. The decision if to continue with Columinate will be made off-line.

Several Directors made additional comments, including congratulations to Ms. Morrison for becoming a board member for The Land Stewardship Project and for the progress made on the Employee Handbook update (which has been sent to the Union for their review), and that it is impressive how connected Ms. Morrison is to the community. In response to a Director's question regarding the St. Croix Valley Food Alliance, Ms. Morrison gave more background on the organization and how they serve the area. Ms. Morrison also provided commentary on how RMCC sponsored the Bridge the Valley Bike Rally.

Pulled Reports

Mr. Mickelson opened the discussion of the pulled reports to discuss the B1-Q4 Report, pulled by Ms. Hauge, before she leaves the meeting. The report was pulled due to an error in one of graphs it contains; Ms. Morrison will make the correction and submit the revised version for placement in the meeting packet.

Ms. Hauge left the meeting.

Annual Meeting Planning

Ms. Morrison provided additional details regarding the meeting: as part of an overall effort to connect to our new neighbors and encourage owners to attend the meeting, River Siren Brewing was approached to use their space, to which they agreed. The space is especially attractive as it contains garage doors that can be raised, enabling members to sit either inside or outside the building, which may help dispel reservations about participating. Eating and drinking plans were discussed, including that Holy Land will supply a buffet.

Pulled Reports *continued*

The Growth and Engagement Report was pulled by Ms. Bradford Styrbicki to discuss the proposed flow of the Annual Meeting. A detailed discussion followed about the order of meeting topics, the time needed for each, and past annual meeting experiences. The discussion resulted in the following order of meeting topics:

1. 6:00 – 6:15 Owner check-in/gathering time
2. 6:15 – 6:45 Business meeting (which will include the topic of strategic planning)
3. 6:45 – 7:30 Dinner
4. 7:30 Engagement activity: World Café

Directors discussed that RMCC By-Laws prescribe the annual meeting agenda and order of topics, which needs to be followed. Mr. Mickelson stated he will review this section of the by-laws. Mr. Mickelson then commented that the President and Treasurer will be circulating their reports to the Directors for their review and asked to give them timely attention.

7:14 – 7:20 Break

Mr. Stiller left the meeting.

Annual Meeting Planning *continued*

Mr. Mickelson resumed the discussion regarding the annual meeting, starting with the World Café owner engagement. He noted that it was critical for Directors to attend the annual meeting, if possible, as they have a role in this activity. Leslie Watson, a Columinate consultant, will provide recommendations for the logistics and may help with the activity, including briefing Directors on their role. It was decided there will be two rounds of the activity. Prizes will be given, with Ms. Morrison and Mr. Mickelson working together on gathering them. Tactics for encouraging owners to stay for the engagement activity were discussed, including requiring participants to be present to win a prize. Directors' attendance at the annual meeting was discussed and Ms. Morrison offered the staff's assistance for the activity if needed. This concluded the discussion of the G&E Committee Report.

The C&D Report Recap was pulled by Mr. Stone. He let the Board know that the Executive Committee has discussed the recap and he cited findings where Directors were not familiar with a

report or procedures and where there were report deficiencies or delays. He stated that this indicates that the Board is not paying enough attention to their job, especially with the Board policies, and more education is needed. Mr. Mickelson agreed and distributed a Columinate article on board self-evaluation and asked that Directors try to internalize its contents, discerning how the Directors are performing as a Board and if the Board does what they say they do. Mr. Mickelson reassured Directors if there are points in the article they do not understand, that is okay as resources are available to address them. He also noted that the Board reporting process has been seen as something to do, rather than something to learn from and try to improve. The Executive Committee has suggested there be education opportunities for Directors, conducted by Paula Gilbertson from NCG. Mr. Mickelson congratulated directors for admitting when they lack knowledge and admonished the fact that those gaps were not followed up upon. He also mentioned that Directors have a social contract with each other: they should rate their performance, try to improve, be open about what they do not know, and teach each other. Responsibility for the lack of education and follow up on the items not in compliance was discussed. It was also noted that compliance with the Board reports is just as important as compliance with the GM reports since the Board is accountable to all RMCC owners.

Another Director commented that the Directors, as a Board, need to focus on reports when they are made available, read the associated policy if necessary, and when there are instances of non-compliance, discuss them at that time. They stated that it is the Board's responsibility and failure for not pulling and discussing reports when they contained non-compliant items; the Board needs to do Board work, being more vigilant in Board meeting with these reports, talking about them and determining how to fix issues. The Board then discussed tactics for increasing the reports' effectiveness, including the timing of their preparation and delivery, the potential for combining and/or streamlining, and potentially giving feedback in-person rather than in the surveys done online. Mr. Mickelson reminded the Board that this process is at the Directors' discretion – it can be changed if needed. A Director noted that the report process has improved over what it had been in the past. At the conclusion of the discussion, the following motions were made:

A motion to accept the B1-Q4 report, with the correction noted earlier, made by Ms. Bradford Styrbicki, seconded by Ms. Hulstrand.

A motion to accept the Growth and Engagement Committee Report made by Ms. Bradford Styrbicki, seconded by Ms. Arndt, and was unanimously approved.

A motion to accept the C & D Report Recap made by Ms. Bradford Styrbicki, seconded by Mr. Stone, and was unanimously approved.

A motion to accept the balance of the Consent Agenda (Meeting Agenda, Open Meeting Minutes – August 9, 2022, New and Leaving Owners List, and Treasurer's Report) made by Mr. Stone, seconded by Ms. Bradford Styrbicki, and was unanimously approved.

Mr. Stone then commented that the Board's most important work currently is strategic planning and recommended having a closed session, which would include Ms. Morrison, in each monthly Board meeting for its discussion. Directors agreed with this recommendation. Mr. Stone

also mentioned that Board meeting agenda topics will be discussed at Executive Committee meetings, for which he will begin taking minutes.

Ms. Morrison left the meeting and the Board went into a closed session.

Closed Session

After confirmation that no owners were present and the meeting recording was stopped, the Board entered a closed session in which they discussed GM compensation.

ADJOURNMENT

Upon the conclusion of the Closed Session and there being no further business to discuss, a motion to adjourn the meeting was made by Ms. Bradford Styrbicki, seconded by Ms. Arndt, and unanimously passed. The meeting was adjourned at 8:16 p.m.

Submitted by Pat Rossez, RMCC Board Administrative Assistant