

**WHOLE FOODS COMMUNITY CO-OP, INC.**  
**Minutes of September 23, 2013, Meeting of Board of Directors**  
*As approved by the Board of Directors on October 28, 2013*

DATE: September 23, 2013  
TIME: 5:30 PM  
LOCATION: Whole Foods Co-op, 610 East 4<sup>th</sup> Street, Duluth, MN

Attended by Board members: Chris Edwardson, David Helf, Heather Murphy, Mickey Pearson, Jean Sramek and John Westlund. Jennifer Cummings was absent. Also present: General Manager Sharon Murphy.

Motion, seconded and carried is abbreviated as MSC, followed by the names of the maker, second and vote tally. U = unanimous vote.

### **OPEN SESSION**

President Chris Edwardson called the meeting to order at 5:30 PM. Heather was appointed timekeeper. Board members were prepared and reported no conflicts of interest; member linkage was reviewed. Jean will not be able to attend the Board's November 2013 meeting.

### **CONSENT AGENDA**

The Board approved/accepted (MSU, John, David) the following items on the September 2013 Consent Agenda:

- Important Dates
- Minutes of August 26, 2013, Board Meeting/open session
- August 2013 Income Statement
- September 2013 Owners Report
  - 77 owner applications
  - 1 Matching Fund request (Owner #12259/\$70)
- Board Calendar items
  - Review audit/even years – not applicable in 2013
  - Board election – not applicable in 2013
  - Review Policy D3, Section 5 – included in September Management Report
- New Business
  - Gazette articles due for October 31, 2013: Board Report/Chris; Membership Matters/Jean

### **REVIEW**

#### **MANAGEMENT REPORT**

Sharon advised that average daily sales through September 22, 2013, are 13.5% ahead of sales in September 2012 with a goal of 11% growth.

The Board confirmed (MSU, David, Mickey) its email decision following the August 2013 Board meeting to approve a patronage rebate for FY 2013 based on not applying fast depreciation = \$762,695 with 20% of that amount to be rebated to eligible Owners as cash = \$152,540.

The Board approved (MSU, John, David) the following management recommended amendments to Executive Limitations Policies with respect to reporting on the second site project:

### **Policy B3 Budgeting/Financial Planning** *(All Stages of expansion)*

A business plan and pro forma budget will be created and updated regularly that will include sufficient professional planning and research on all aspects of the project including financial assumptions, market data and location analysis. Prior to progressing to Stage 3, plans and budget must demonstrate feasibility:

- ❖ *Adequate financing* is in place to complete the project.
- ❖ *Adequate debt service*: Budgets must demonstrate our ability to pay back all sources of funding. Budgets will not increase debt:equity 4:1 initially. Realistic projections must show a debt:equity of 3:1 or less within two years of opening and 2:1 within four years.
- ❖ *Adequate cash*. Cash >\$250,000 throughout project and first five years.
- ❖ *Adequate staffing*. Personnel costs < 24% of budgeted sales.
- ❖ *Adequate financial performance* by Year 2 after opening: 75% of NCGA key indicators in compliance:
  - Sales growth >3%
  - Net income >0.50%
  - EBITDAP >1.50%
  - Current ratio >1.25
  - Quick ratio >0.70
  - Total debt:equity (MLAE) <2.50
  - Total debt:equity <3.0
  - Days cash on hand >10
  - Inventory days <30

Assumptions will be noted.

Total project cost must be based upon a budget that includes a contingency of at least 10%.

**NEW B3.1a Adequate Detail.** Budgets will include five year projections of operational performance including all required ratios.

**NEW B3.1b Board Priorities.** Options, plans and budgets will include evaluations of how well they may achieve progress on ENDS and the Shared Vision for expansion (see above).

**NEW B3.1c Risk, Market Forces and Organizational Capacity.** Plans and budgets presented to the Board will include updated evaluations of risk, market forces and organizational capacity. Market forces that could affect the success of the store will be monitored and responded to. These forces include new food stores in our trade area, format changes in existing food stores in our trade area, economic trends in our trade area and traffic patterns in the immediate vicinity. At all times, the GM will keep the Board fully informed about the risks.

**NEW B3.1d Sufficiently engages and educates Owners and seeks appropriate external expertise.**

- ❖ Budgets will be based on a professional market/site study by a market/site analyst experienced in co-op expansions.
- ❖ Budgets and plans will be vetted by consultants and peers experienced with successful co-op expansions.
- ❖ Owners will be engaged in planning and informed as feasible during each stage of the expansion project.

### **Policy B4 Financial Condition** *(Stage 2)*

**NEW B4. 1a Debt.** Owner financing, financial institution loans, vendor credit, equipment leasing and/or landlord financing will not be used in a combination other than that which is most economical in the long term for Owners including considerations of cost of financing, cost of obtaining financing and tax implications. *(Stage 2)*

**NEW B4. 12a Capital Expenditures.** As opening a second store is a capital improvement project of more than \$5,000, Board approval is required. Specifically, Board approval will be obtained for:

- ❖ Expansion debt, including bank loans, government loans, co-op fund loans and owner capital campaigns.
- ❖ Contracts over \$25,000 not included in expansion pro forma.
- ❖ Overall sources and uses (pro forma) budget prior to purchasing equipment or other major expenditure. *(Stage 2)*

### **Policy B5 Asset Protection**

Due diligence will be performed on all contracts over \$100,000, including review by attorney and/or experienced consultants, comparison with what terms other co-ops are getting, and others as feasible.

**NEW B5. 1a Adequate Insurance.** Contractor is bonded or meets the requirements of our construction lender. All new assets are adequately insured as they are acquired. *(Stage 2)*

**NEW B5. 13a Maintain Building and Equipment.** Lease agreements will include clear language on landlord/tenant responsibility. *(Stage 2)*

**NEW B5. 13b Misuse.**

- ❖ GM shall not cause or allow construction or demolition to occur prior to closing of financing and securing all required permits.
- ❖ GM shall not fail to assure that controls are in place to ensure that building/construction is completed on time, on budget and as designed. *(Stage 3; monitored by monthly FYI reports, see below)*

**NEW B5. 13c Allow Unnecessary Exposure.**

GM shall not enter into a lease or site purchase agreement without a commitment on financing and Board approval.

Project must meet all applicable zoning requirements.

- ❖ All city approvals, applications, leases and purchase agreements and contracts over \$100,000 will be reviewed by an attorney.
- ❖ The selected site will not have any environmental liability issues which are not resolvable within the project budget.
- ❖ Construction contracts will be fixed price contracts only.
- ❖ Only licensed contractors with successful track records doing similar size and similar type of projects may be used. *(All Stages)*

#### **Policy B6 Communication and Counsel to the Board**

GM will ensure that the Board has the information and support necessary to make good and timely decisions on behalf of the Co-op including quarterly revisions of timelines and sources and uses budgets.

**NEW B6. 1a Assumptions.** Monthly FYI report to the Board on information that has changed. *(All Stages)*

**NEW B6. 2a Non-Compliance.** Monthly FYI report on non-compliance issues. *(All Stages)*

**NEW B6. 3a Provide Opportunities for Participation.** Opportunities will exist throughout the project for Owners to help with the expansion project, e.g.:

- ❖ **Finance.** Opportunities will exist for Owners to finance the expansion. *(Stages 1-2)*
- ❖ **Lead.** Opportunities will exist for Owners to engage in discussions that inform expansion decisions. *(Stages 1-2)*
- ❖ **Promote.** We must make it easy for Owners to build momentum and support for the expansion project. *(Stages 2-4)*
- ❖ **Benefit.** Options presented to the Board will include analysis of the benefits to Owners. *(Stages 1-2)*

#### **Policy B7 Emergency Management Succession**

**NEW B7. 2a Project Management.** During the planning time for opening a second site, the GM will contract for project management services and/or actively prepare one manager to take over the project if needed.

#### **Policy B8 Customer Service**

**NEW B8. 1a Product Selection.** Compliance with Co-op Food Policies, customer demand and market trends will be the primary criteria for new products. *(Stage 3)*

**NEW B8. 2a Safety.** Design feasibility assessment will include analysis of how the design provides for a safe shopping experience for Owners. *(Stage 2)*

The Board conducted its semi-annual review of Governance Policy D3, Section 5, related to encouraging leadership among all Board members, leadership continuity and officer succession.

### **COMMITTEES**

Heather, Mickey and Chris met as the Board Recruitment Committee prior to the September 23, 2013, Board meeting. Recruiting for the 2014 election will begin at the Annual Owners Meeting on October 26, 2013, with an opportunity for Owners to express interest in Board service by signing up at the registration desk, and Chris will talk about recruitment in his State of the Co-op address. Mickey will submit a recruitment article for the next *Gazette* (submission deadline = October 31, 2013). Each Board member was asked to bring names of at least two Owners interested in Board service to the October meeting.

### **OLD BUSINESS**

Jean and Sharon reported to the Board on progress for the second site presentation/Owner input opportunity planned for the Annual Owners Meeting. Board members will be at the Harborside Room/DECC by 3 PM on Saturday, October 26, 2013, to rehearse the presentation.

The Board agreed to announce the planning for the first three Owner focus groups to be held in January, February and March 2014 (different times of day/different days/location to be announced) regarding the second site. Each session will be approximately one to one and a half hours long and will include refreshments. Attendance will be limited to primary Owners, approximately 35-40 people/session. Management will arrange logistics and registration (first come/first served; no repeat attendance). The Board will determine the agenda and be responsible for table facilitation.

Following a written evaluation on process, Chris adjourned this meeting at 7:28 PM.

Respectfully submitted,  
Sharon Murphy, General Manager