

KARMA CO-OPERATIVE BOARD OF DIRECTORS

Minutes for meeting of Monday, January 4, 2010, 7:05 – 9:40 p.m.

Arthur Jacobs' home, 90 Olive Ave.

Directors present: Arel Agnew, Corey Berman, Hilary Gibson-Wood, Arthur Jacobs, Howard Kaplan, Reg McQuaid, Sarah Pretty, Danielle Thibodeau, Benjamin Watts

Regrets: Angela Lee

Staff Present: Justin McNabb (General Manager)

Chair: Sarah Pretty

Note-taker: Ryan Fobel

Minutes editor: Reg McQuaid

1) Call to order.

Meeting was called to order at 7:05pm.

2) Approval of minutes from previous meetings

Change the date from December's minutes to Dec. 7th (was the 6th).

Arel moved that to accept the minutes from the Dec. 7th meeting with this change. All in favour. Passed.

3) Report from GM

- a. The store was busy over holidays and in-store member labour turnout was very good this month.
- b. 911 members (up 7 over previous month); 479 working, 432 non-working.
- c. A membership drive should be planned for the spring (membership normally increases in January anyway).
- d. City of Toronto gave Karma a grant (\$300) for new energy saving lights.
- e. Work has begun on members' room. A lot of the electrical has been done, insulation is done, drywall should go up tomorrow. Still more work to do, but it should be functional.

4) Treasurer's Report (Howard)

- a. The Treasurer's report is attached as an appendix.
- b. An updated report was passed around (including sales numbers only from December). December's sales were noticeably below targets, those targets being approximately 9% below two years ago; instead, we are still at 12% below 2 years ago. Conclusion: have to put more effort into membership drive.
- c. We are getting slightly more revenue due to the increased markup, but we still need to increase sales.
- d. The finance committee needs more members (had 5, currently down to 3). The committee members are in the process of documenting the functions of the finance committee, and they have prepared a recruiting ad to include in a future communication with members.

5) Negotiations update (*in camera*)

6) Planning of February members' forum

- a. Hilary spoke to St. Alban's Community Centre. We can get the library (40+ people) for \$30/hour (\$20/hour if someone is a member).
- b. Sundays, February 21 and 28 are free. All board members are free on the 21st.
- c. What will be on the agenda? The following were suggested:
 - How can we get people involved in a membership drive?
 - Should we change our membership structure and what would it look like?
 - Contact people from membership and orientation committee to get them involved (they can probably inform the discussion)
- d. Can we delegate board members to meet with these committees beforehand? They could present the board's perspective and try to get some direction from these committees for setting the forum agenda. Howard – Finance, Danielle – Outreach, Ben – Food Issues, Arel, Hilary and Sarah also offered to contact other committees.
- e. Logistics:
 - Need to book the rooms
 - Send out communications (how? when?)
 - Refreshments?
 - How do we structure the meeting? One big group, break off into smaller groups?
 - Can have smaller groups with members of the board, committees in each group
 - Need to publish an agenda beforehand
- f. What are our goals?
 - Get people involved; reenergize our membership (there were problems this year getting candidates for board/committees)
 - Clarify membership issues
 - Should we be using this forum as a way to recruit people to perform the membership drive?
- g. Agenda
 - Overview of our finances
 - Membership structure

- h. Corey agreed to draft a document to be circulated among the board by email so that something can be ready for next board meeting to distribute to membership.
- i. The question was raised as to whether or not we have to wait until the next AGM to change membership structure. Given the financial importance of growing our membership, there was general agreement that an earlier general meeting may be necessary.

7) Penalty for non-payment of building fee

- a. Can we put notices on fee cards: “Pay your fee by the deadline or arrange to work hours by March 15th”?

Resolved, that the General Manager and staff be instructed to post notices on the shop/work cards of members who have not already paid their membership services or building fees, informing those members that, if the fees are not paid or worked off by March 15, 2010, they will not be allowed to shop after that date unless all outstanding fees are paid at the time of the first shop after March 15.

Resolved, that the Board instructs the General Manager and other staff to enforce the no-shopping policy expressed in those notices. Moved by Howard. All in favour. Passed.

- b. At a future meeting, the board should discuss a more general motion that would apply to all future fees (there is already a similar motion from last year)

Motion that Sarah will speak with the member who owes over \$600. She must pay back her debt as agreed to by the president of the board. 8 votes in favour. Howard voting against it on procedural grounds. Passed.

8) Board Communication

- a. Items to communicate to membership:
 - Availability of the AGM draft discussion record, with a request for members’ comments on it.
 - Notice regarding Feb. member’s forum
 - Notice regarding non-payment of building fee
 - Committee recruitment (need members for finance committee)These will be sent by email, and put in chronicle. Angela and Sarah agreed to organize this communication.
- b. The announcements that require urgent attention will be posted on the bulletin board.
- c. Reg will also post an invitation for members to attend future board meetings on the bulletin board (with meeting dates/times).

9) Other business

- a. There was an update on the cash register system from Justin. The product database is coming along. Howard and Andrea have been working on backend.
- b. User's manual for staff and cash trainers/members still needs to be setup.
- c. Justin would like to have the new registers up and running by the end of the month. Howard thinks that deadline sounds reasonable.
- d. Howard expressed some concern with the management of this project (Howard responsible for the software backend, Justin for the product database, but no one is really in charge of the overall project).

10) Adjournment. The meeting ended at 9:40 p.m.

Next Meeting: Monday, February 1 at 7 p.m., at Art Jacobs' house, 90 Olive Ave.

Appendices to January Minutes:

- 1) Treasurer's report from Howard Kaplan (Word file included herewith)**
- 2) Condensed store income and expense statement, November 2009 (separate pdf file)**
- 3) Sales Graph through January 2010 (separate pdf file)**

Treasurer's report from Howard Kaplan

For the Karma Board meeting of Monday, 4 January 2010

(slightly revised for posting on the web with the meeting minutes)

The Chronicle has asked for a financial report for the issue scheduled to be distributed around February 3. I'll start my Treasurer's report with the text of that Chronicle article; note that before publication I may have a chance to update the sales figures for the end of December instead of November.

At the halfway point in the fiscal year, 30 November 2009, our financial picture is better than it was the previous year but still not as good as it needs to be. Our last good year was fiscal 2008 (ending May 31, 2008), when we had an operating surplus of about \$29,000, while in fiscal 2009 we had an operating loss of about \$91,000. These figures exclude non-operating items such as grants; they also exclude membership fees and expenses.

The best news for the recently-concluded half year concerns shrinkage, a catch-all term for the reasons why goods that we buy from our suppliers can't be sold at their intended price. Shrinkage includes literal shrinkage (loss of moisture), trimming of produce to make and keep it fit for sale, spillage, spoilage, and pilferage. It also includes pricing errors, and our accounting system also lumps in the loss of income from marked-down goods (when they haven't been selling well enough) with real shrinkage. In fiscal 2008, our overall shrinkage was 5.4%, while last year it was 9.5% in the first half of the year (when there were renovation disruptions) and 8.0% in the second half. In the first half of this year, shrinkage declined again, to 7.7%. On our wholesale purchases of nearly \$550,000 for the first six months, this improvement from 9.5% to 7.7% decreased our loss by about \$10,000, compared to what we would have lost at the shrinkage rate for the same six months one year earlier. We still haven't reached the favourable shrinkage of two years ago, 5.4%, but we are definitely making progress.

The news concerning sales is not as favourable. We ended last year with monthly sales being about 12% lower than in the corresponding months of the fiscal 2008 (our last good year), and we also began this year about 12% lower each month than in fiscal 2008. We were hoping that, over the year, we would slowly improve our sales, so that by the end of the year we would be only 6% behind fiscal 2008 each month. Instead, we are still tracking very close to that 12% shortfall; our year-to-date sales are about \$11,000 less than we hoped they would be by the end of November.

In summary, for the first six months of the year, we had an operating loss of about \$12,000. We also had non-operating income (including building fees) and expenses (the costs of negotiating the collective agreement with our unionized staff), for a total loss of around \$23,000 (exclusive of member service fees and expenses). This is considerably better than the \$48,000 operating loss last year at the same time, but it is not good. Projecting sales forward at 12% below fiscal 2008, and making some other adjustments including a reasonable estimate of the wage increase for the union members, we are now estimating a year-end loss close to \$31,000. Increased sales, further shrinkage decreases, and a rapid conclusion to the contract negotiations could reduce that loss, while their opposites could increase that loss. Following last year's loss, we cannot survive too

many losses of this year's projected size, but there is no serious threat to our continuing in business for the next twelve months, while work proceeds to recruit more members and increase our sales again.

More details about these results and projections are included in page four of the financial statements that I have attached. The projection was reviewed by the Finance Committee, who agreed with the estimates. Here are a few facts that I didn't mention in the Chronicle article but did incorporate into the projection:

- We're projecting a total of \$25,000 in negotiating expenses this year, up from the \$20,000 we'd previously estimated.
- The gross margin should increase somewhat as the recent round of markup increases, still incomplete at the end of November, becomes complete.
- Some members will work off their building fees instead of paying cash, but that won't decrease what we spend on very-part-time staff (I had missed this adjustment, but rolf struthers of the Finance Committee mentioned it at our meeting).
- There is an allowance for a 2% raise (including COLA) for our two salaried staff, retroactive to the beginning of the fiscal year. This is not a specific recommendation from the Finance Committee or the Treasurer; it is, for the moment, only a way of making sure that consideration of adjustments to our managers' salaries not be forgotten in our planning for the rest of the fiscal year and in our recurring consideration of union member wages.

The first three pages of the attached statements include the two summary statements that the Board has already seen, plus the detailed calculations and a graph concerning our failure to improve sales beyond being 12% below two years ago. Most of you will not want to look at the detailed calculations defining the graph, but the graph is interesting, in part because it could easily be misinterpreted. Our actual sales are the line with squares on it, and our target sales are the dashed line. (Note how the dashed line gets closer to the diamond line as the year progresses, representing desired improvement during the year.) At first glance, it might look as if the line of squares, our actual results, is fairly close to the dashed line, our target results. It is difficult to see on a graph like this, but, on the average, the squares are actually about 1.5% below the target. Over the past six months, we were hoping to reduce the sales deficit (compared to two years ago) by about 1.5%, so in fact we are standing still, rather than improving. If you look at the lower part of the graph, you can see that we were below our target for four months out of six, and we're generally below the target by a larger gap than we exceed the target.

I have two questions about how we present these financial statements in the future, and I want to know the Board's preferences:

- Some members of the Finance Committee prefer to see negative numbers with parentheses, as in "(90,645)", rather than with minus signs, as in "-90,645". Parentheses are traditionally used in accounting statements, such as the annual statements that the auditors prepare, but minus signs are the default in Excel. Also, parentheses require more space, two characters instead of one, and sometimes space is a precious commodity. Does the Board have a preference, or is the Board indifferent between these options?
- Currently, the Condensed Store Income and Expense Statement shows the store's operating revenues, expenses, and (net) Operating Income excluding the building fees and also excluding the consulting costs for the union negotiator and any lawyers we need to consult. Donald Altman thinks that the cost of negotiations should be considered an operating expense, since we need to pay for it out of our operating income, and since it's considered an operating expense on the annual financial statement. I think the cost of negotiations should be left separate, since those negotiating costs vary so much between and within years, and including them will make year-to-year and especially month-to-month

comparisons difficult. Justin said that he agrees with the current layout, with negotiating costs excluded from operating income. Note that, in either case, there is a line for Net Store Income that does incorporate all of our store-related income and expenses, whether regular or irregular. Does the Board have an opinion about whether or not to include consulting as an operating expense?

On the same page as the Condensed Store Income and Expense Statement, there are key highlights from our balance sheet, including our net worth. That net worth is currently -\$58,000, and it's important for the Board to realize exactly what that means. Most importantly, it does not mean that we are "bankrupt", frequently used as a loose term meaning "unable to pay our debts". In fact, we can pay all of our debts to outsiders such as Alterna Savings and those suppliers who provide goods on credit, as well as to members who have made voluntary building loans. However, it does mean that, in theory, we cannot repay all of the mandatory \$70 member loans. The key phrase here is "in theory", because the balance sheet does not reflect what would really have happened if Karma had decided, for whatever reason, to terminate business at the end of the day on November 30, 2009. The values of our assets reflected on the balance sheet are relevant to a scenario such as selling the business, as an operating whole, to a new owner; the balance sheet values also follow some accounting rules that may not be realistic.

Just as an update, not requiring any Board action, the Board should know that the Finance Committee made some decisions at its last meeting:

- The Committee is going to advertise for new members, as both Corey Berman and rolf struthers have now left the Committee. The advertisement implies that the Committee's role will be somewhat larger than it was in the past, including various projections and analyses that go beyond what appear on our financial statements. The Board will eventually be asked to formally approve that enlarged role when it approves the Committee's handbook (currently under revision), a document that includes the Committee's mandate plus some information about its membership, structure, and operating procedures.
- The Committee's going to work with the staff to have membership numbers appear on the monthly statements, so that sales per member can be computed and shown.
- The current way of showing sales on some reports, divided into retail and wholesale sales, is going to change. Instead, we will show total sales and sales discounts, the latter being what we give to staff as part of their compensation. This should make it easier for the Committee and Board to see the cost of granting those discounts.

Over the next few weeks, I will be working on two important projects, the revision of our offering statement (so we can collect new building loans) and my part of the implementation of the new cash registers.