

Annual General Membership Meeting Minutes (Draft)

Karma Co-operative
Monday, October 22, 2007

Draft minutes prepared by Micki Honkanen

Board Members Present

Rolf Struthers (President), Margaret Knittl (Vice President), Deborah Harriet Cherry (Secretary), Jonathan Tracey, Charles Danzker, Donald Altman, Micki Honkanen. Regrets: Mohsen Ahmed, Absent: Anil Reddi

A quorum of the membership was present.

Rolf Struthers (President) opened the meeting as Chair at 6:45 pm

Approval of Agenda

Struck from agenda, item at 7:20 (amended bylaws)

Howard Kaplan noted that two rounds of election are necessary, if an election takes place

Two rounds of election were added to the agenda

Moved to accept the agenda as modified: Andrea Rosen. Seconded: Harry Koster

Motion carried

Minutes of 2006 AGM

Donald Altman noted that Geoff Webb should have declared that there was quorum at the beginning of the meeting.

Moved to accept the minutes as modified: Geoff Webb. Seconded: Barbara Scott

Motion carried with 3 abstentions

Auditor's Report (*report is attached*)

The auditor noted the strength of our Finance Committee. We had a \$20,000 profit, the reasons for which include an increase in gross profit. This can be attributed to the measures taken to reduce shrink, and watched wages. Our total surplus has increased remarkably in one year, attributable to the new building fee. Marilou Lawrence was commended for her work with the member loans. It was noted that the store's assets have increased significantly. The auditor recommended that we determine the legality of keeping the unspent grant money, and decide what to do with the money. Financially, the year has been a smooth one for Karma.

Motion to accept the auditor's report: Donald Altman. Seconded: Harry Koster

Motion carried with no abstentions.

Treasurer's Report (*report is attached*)

Rolf Struthers reported in lieu of the Treasurer.

Rolf Struthers reported that we reversed the negative financial situation from last year and achieved a significant surplus. We managed to reduce shrink, in part because members were asked to show their groceries at the cash desk. The Finance Committee has been busy working on an offering statement for big buck loans, as well as to secure a line of credit with Alterna. The

2007-2008 budget is a break-even budget, including consideration of the renovations. Rolf noted that the membership services budget may have to increase in order to accommodate increased costs in this area. A thank you was extended to the members of the Finance Committee for their work this year.

Motion to appoint the auditors Berman, Lofchick & Lum for the fiscal year 2007-8: Rolf Struthers. Seconded: Karen Kaplan
Motion carried with one abstention

Discussion: Treasurer's and Auditor's Reports

James Davis: Who decides where to put the surplus assets?

The auditor noted that if we liquidated, we would have \$20,000 more in equity for that purpose. This is money that we could use to finance the renovation.

Donald Altman: We are not expensing the true value of the cost of the building and the costs required to maintain the building; the \$20,000 surplus is probably what we need to collect every year in order to maintain the building. We put the money that we make back into the organization, and in this case it would be for the building.

James Davis: Asked for an explanation of the green power option.

Rolf Struthers: The original budget called for us to put aside some money to buy a green power option, but we decided to create a project fund that might go toward green power or another option.

James Davis felt that that green power would be a great project.

Donald Altman: We had a debate about what would be the best bang for our buck, environmentally speaking. It wasn't self-evident that energy was the best place to allocate this money.

Jonathan Tracey: Is anybody looking into the green power option?

Donald Altman: The Finance Committee discussed this, but has not had much time given that it has been consumed with the projects of the Offering Statement and finding the financing for the renovation.

President's Report (*report is attached*)

Rolf Struthers discussed the three goals that we worked to achieve over the past year: to reduce shrink and ensure positive financial results; to push forward the plan to replace the coolers; to reinvigorate the committees. We managed to reduce shrink; we managed to bring the building project to its present phase, we've been working hard to secure a line of credit for this work; we worked hard to liaise with the committees through the committee caucus. Rolf commended the staff, who worked really hard this past year, in particular Graeme Hussey and Michael Armstrong.

Acting General Manager's Report (*report is attached*)

Michael Armstrong noted that the new protocol of bringing groceries to the cash has reduced shrink. In the past, there has been more detailed inventory tracking to control shrink, but this has been dropped for now due to a shortage of labour. In terms of operations, Michael noted that

nothing major happened: a cooler was replaced, and staff member Filip Harderer has been responsible for basic maintenance. Michael presented the idea that we create a canvas bag, with a design contest. Aside from Graeme leaving, there have been many human resources changes, including new clerks Sophie and Vanessa. Lisa left us and we wish her the best. Sara is now the Grocery Manager, Christine is now the Member Labour Coordinator, and the position of HABA manager has been phased out. All staff will be involved with pricing and merchandising. He noted that the Manitoba Maple tree overhanging the sheds needs to be removed, and that a new tree will be planted in its place.

Discussion: Acting General Manager's Report

Michelle Webb: She has a silkscreen of the Karma logo for canvas bags, etc.

Jonathan Tracey: How have the staffing changes gone during the past month?

Michael Armstrong: It has been difficult, but Sara has been able to take over Lisa's tasks successfully.

Jim O'Reilly: What is your sense of our competition? Grocery stores, such as Fiesta Farms, are moving into local foods.

Michael Armstrong: Being a food co-op, and the fact that we buy directly from farmers, sets us apart from our competition, but it's true that there has been a decrease in sales as a result of this competition. We need to emphasize our relationship with the farmers in our promotions.

Michelle Webb: Fiesta Farms has been in the neighbourhood for 30 years,. They have always had the same values as Karma, and both stores are still going strong.

John Biggs: Suggestion to plant a fruit tree, instead of an old growth tree.

Michelle Munk: It would be useful to label all products that are local (not just produce).

Sara Pulins: She has asked suppliers for listings (esp. bulk products), this may be an issue for the Food Issues Committee

Margaret Knittl: Requested that the produce manager clarify the label CA-USA as produce from California, not Canada.

Alana Leonard: When we speak about the tree, can we also consider improving the unevenness of the pathway and lighting?

Filip Harderer: He asked a member look into the lighting system for the passageway, and it will be repaired within 4-6 weeks.

Richard Brooks: What is the status of the hiring of the new GM?

Rolf Struthers: We have interviewed candidates and made a recommendation to the Board.

Arthur Jacobs: Asked for an explanation of the point-of-sales system.

Donald Altman: It is a perpetual inventory system. Items are scanned at the cash, and the system keeps track of prices and inventory. As we move toward variable markup, it is harder to keep track of the food costs, and determine our gross margin. A POS system would help us to predict

the financial situation of the store.

John Biggs: Given the nature of Karma, and the fact that we rely on volunteer labour, we can only do actual inventory once a year, which makes it very difficult for us to keep track of inventory.

Dave Howard: Thinks it's high time that we had a picture of the AGM in one of our Chronicle issues.

Deborah Hayes: The mark-ups, are they readily accessible to the membership? How are the mark-ups decided?

Michael Armstrong: This information can be supplied. In produce, 40% is the standard. He is unsure whether there is a policy about mark-ups.

Sara Pulins: There isn't a lot of variation in the mark-up, and very few products sell for less than our mark-up.

Orla Hegarty: It seems arbitrary that the membership can't access the procedure by which markup occurs

Donald Altman: The Board, a long time ago, advised that we adopt variable mark-up, on the basis of the product. Whole classes of product have more shrink than others (e.g. produce), and therefore these should have a higher mark-up. We need to make a decision as an organization as to whether or not we would like the staff to manage the parameters of the mark-up. The Board no longer manages these details, because our organization would grind to a halt if staff had to go to the Board every time they wanted to make a decision about mark-up.

Jason Muller: If we have a disagreement about the price of something at Karma, who should we approach about this?

Michael Armstrong: As an example, other stores use soy milk as a loss leader, but Karma doesn't use loss leaders. We do decrease our mark-up on things such as dairy instead. We should look at this.

Sara Pulins: Our mark-up indicates the real cost of the product. Places like Whole Foods also get discounts from their suppliers for buying in bulk, that we can't access.

Ahdri Mandiela : We need to address the original question: how do we access information about mark-up and pricing? This is a question for the Board to address.

Deborah Hayes: We are not interested in micro-management, but we would like to know the general policy surrounding the question of mark-up.

Alex Pine: Are there opportunities for us to collaborate with Fiesta Foods in any way?

Charles Danzker: Fiesta Foods is a privately run store, originally ethnic and having little in common with us, until Loblaws opened and they changed their policy. Otherwise, they don't have a great deal in common with Karma.

Election of 2007-8 Directors

Motion to appoint Howard Kaplan as the Substitute Elections Chair: Rolf Struthers. Seconded:

Jonathan Tracey
Motion carried.

Geoff Webb was the Returning Officer, and the following members volunteered as ballot counters: Ashley Heaslip, Taylor Whelan

Howard explained the ballot usage and the voting procedure.

Nomination of candidates for two-year terms

Donald Altman had notified the nominating committee of his nomination.
Charles Danzker nominated Ahdri Mandiela, who accepted the nomination
Margaret Knittl nominated Orla Hegarty, who accepted the nomination
Donald Altman nominated Harry Koster, who accepted the nomination.

There being no more nominations, there will be one vacancy on the Board.

The candidates each spoke:

Donald Altman: A manager at the City of Toronto. Has been on the Board previously, as well as the Hiring Committee. Feels that someone from the Hiring Committee should be on the Board to support the new General Manager. He has been on the Finance Committee for a very long time, on the Board of the ONFC, and on the Finance Committee of the ONFC since the mid-1970s.

Orla Hegarty: Was on the Board of a food co-op in Kitchener, and was a member of that co-op for 5 years. She has been a member of Karma co-op since 1999, however she renewed her membership 2 years ago. She is looking forward to the challenges involved in being a part of the Board. She is also a teacher.

Harry Koster: Has been a member of Karma for 20 years, and decided to run as a result of a few items of concern. He would like to see the repairs to the store completed, greater member involvement, and would like to see more local products offered at Karma.

Ahdri Mandiela: Has been a member for 17 years, for the most part a working member, including membership on the Orientation Committee. She works as a theatre artist, and seeks to work at Karma without being tied to in-store labour. She enjoys the feeling of working and forming a part of the Karma community. She is interested in bridging the gap between the long-time and new membership at Karma.

Motion to acclaim the candidates: Geoff Webb. Seconded: Charles Danzker
Carried, with approximately 6 abstentions.

The four candidates were elected to two year terms.

Nomination of candidates for one-year terms

Rachel Birenbaum had informed the nominating committee of her nomination.

The candidate spoke:

She joined the co-op in June 2007. She is very enthusiastic, and would like to contribute in every way she can. She hopes to bring a fresh perspective and diversity of experience. She was a member of Park Slope Food Co-op.

Motion to declare the candidate acclaimed: Geoff Webb. Seconded: Michael Jacek
Motion carried with 2 abstentions.

Presentation by the Physical Planning Committee

Joerg Wittenbrinck introduced the presentation of the architectural plans as approved by the Board at the Oct. 11 meeting. The current plan balances between member concerns: sustainability, addressing the key repair issues (walls), and the social aspect of Karma.

Kathy Tafler and Doug Rylett of Tafler Rylett Architects presented the plans.

They noted that the process was like moving pieces around in a puzzle. They looked at the material of the focus groups, and other materials that had been collected. Then, they took an inventory and measurement of all shelving units so that they could be moved around in their computer. They began with the approved plan (from the June Board meeting), but found that this plan did not accommodate all of the store furniture, such as shelving.

Tafler and Rylett noted that they began their work with the priorities of store layout, community space, bringing in daylight, and the grouping of products together. They sought after energy efficiency, the re-use of shelving, and functionality.

In terms of circulation, several routes were identified, with deliveries coming in from the northeast door, and a number of routes available toward the produce cooler. In some cases, the plan straightens and widens existing routes. The members' table is moved toward produce, with the back of the bulk bin available for use as a bulletin board. In the members' room, the window is replaced with a glass door, and in the work space the sink is moved, with a window between the office and work area for communication.

In terms of retail space, the architects noted that their goal was to concentrate the retail in the eastern half of the store, with windows opened up along the north and east walls. In the plan, bulk products are grouped together, as are grocery and refrigerated products. The shelves nearby to the windows are lower, creating more openness. The main work involved is to consolidate the coolers and freezers for greater energy efficiency. The plan locates the coolers and storage areas on the perimeter of the store, where there are no windows. The washroom will be barrier-free. Most of the shelving will be re-used (as indicated by the unshaded shelving in the diagram), and the plan calls for us to purchase new coolers and an upright freezer (if budget allows) for the purpose of consolidation.

The plan will probably be altered slightly, in consultation with staff. Many of the particulars will be sorted out in future.

Discussion: Presentation by the Physical Planning Committee

Orla Hegarty: How much staff input was there?

Tafler and Rylett: They met with Michael Armstrong, and the Physical Planning Committee. It is important to remember that these are not the final plans.

Michael Jacek: What effect does the design have for product in the store?

Tafler and Rylett: The consolidating of the chest freezers, and some shelves, has occurred, which will have an impact on product selection. But, in general, they ensured that the same amount of

shelving remains. Theoretically, there is room to place a cooler in the members' room. With every plan that they looked at, there were things that did not fit in or work well. Trade-offs were necessary in order to create greater circulation and less congestion, which was a value that members articulated. Efficiencies can be found in the store layout.

Jonathan Tracey: In terms of product volume, is there a net increase or decrease?

Joerg Wittenbrinck: In terms of cooled goods, there is no net increase or decrease. We will have to see how much efficiency we can get out of an upright freezer.

Michelle Munk: Has there been discussion of solar panels on the roof?

Rolf Struthers: We have no money or plans to change the roof.

Tafler and Rylett: There is money available for that. We will need to check the roof to ensure that it can support parts for the coolers, and at that time we will also check to ensure that there is enough space left for future projects, such as a green roof.

Michelle Munk: Will the store be opened or closed during renovation?

Tafler and Rylett: Portions of the store will always be open during the renovations. In terms of space planning, the design maximizes this possibility. A priority is to not move the produce and some of the bulk, so that they will always be available.

Donald Altman: The Finance Committee's model assumes that the renovation will take place in mid-July to August to minimize the impact on sales. At some point, the moving of the shelves may involve keeping the store closed for a couple of days.

Margaret Knittl: There was decided advice from Linda Tomas that the shelving in the coolers be adjustable, to create an efficiency.

Howard Kaplan: In what sense of the word "approved" did the Board approve this plan?

Joerg Wittenbrinck: The decision allows the Building Committee and architects to move toward construction documents, pre-approve contractors, and so on, so that a final Board approval can take place.

James Wilkinson: The process is a continuum where the design gets refined over time. At this point, the plan needs to be refined in order to make construction documents that can be issued to a contractor.

Linda Zelicki: What is the estimated cost and what is our long-term plan?

Joerg Wittenbrinck: It is a plan that addresses both the necessary renovation (the walls), but also uses the opportunity to improve the store as a whole. Implicit in the decision to renovate is a decision to stay in our present location.

Tafler and Rylett: The plan invites us to re-build here and there, but overall is viable for the long term.

Donald Altman: The plan will cost \$150,000 so far, with a few extras.

Jonathan Tracey: Some of the coolers are relatively new and we could sell them.

Karen Kaplan: How can we simultaneously be in a position where we have not yet fully consulted the staff, and yet are prepared to consult with contractors.

Rolf Struthers: This process did not begin yesterday, and we have done a reasonable amount of consultation. It is necessary at some point to make a decision to move forward.

James Wilkinson: We have consulted, but the design changes as things move on. On whole, everyone has been engaged in the process.

Deborah Hayes: This is an impressive re-design of the store.

John Biggs: The Physical Planning Committee has worked closely with the Finance Committee regarding the financial implications of each decision.

Dave Howard to Sara Pulins: what do you think of the plan?

Sara Pulins: The staff know that there is less overstock room and space for the staff. Of the plans included in the focus groups, this was not among them.

Michael Armstrong: It has been a long process. Among the changes based on staff input, include: produce being separated from dairy, a separate sink for produce. There has been a lot of informal consultation, and he has expressed his concerns at Board meetings. His only concern is that there will be a lot of traffic between the delivery door and the overstock room. The current plan is a compromise, but one that needed to be made. We will learn over time what works and does not work, and adapt to that.

Tafler and Rylett: The initial plans did not incorporate the furniture, and so this plan is a compromise that includes the furniture.

Bruce Ward: The architect will finish the design, and there is a lot of fine-tuning to be done afterwards. What has been approved is the concept.

Motion to adjourn: John Deluca Howard. Seconded by Geoff Webb.

Meeting adjourned 9:53 pm

KARMA CO-OPERATIVE INC.

(Incorporated Under the Co-Operative Corporations Act of Ontario)

FINANCIAL STATEMENTS

YEAR ENDED MAY 31, 2007

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AUDITORS' REPORT

We have audited the statement of financial position of Karma Co-Operative Inc. as at May 31, 2007 and the statement of changes in net assets, operations, schedule of membership revenues and expenses and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the organization as at May 31, 2007 and the results of its operations and the cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Respectfully submitted,

Toronto, Ontario.
July 10, 2007.

CHARTERED ACCOUNTANTS.
Licensed Public Accountants.

KARMA CO-OPERATIVE INC.

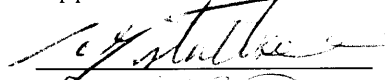
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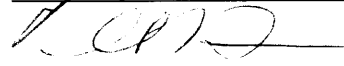
STATEMENT OF FINANCIAL POSITION

MAY 31, 2007

	2007	2006
ASSETS		
Current		
Cash	\$ 115,086	\$ 60,032
Inventory	118,017	126,279
Prepaid expenses and sundry receivables	<u>2,397</u>	<u>5,792</u>
	235,500	192,103
Capital - at cost less accumulated amortization (note 2)	45,341	59,012
Other - at cost		
Membership loan - ONFC	32,366	29,529
Shares in Toronto Renewable Energy Co-operative	2,000	2,000
Shares in Alterna Savings Credit Union	<u>203</u>	<u>203</u>
	<u>\$ 315,410</u>	<u>\$ 282,847</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 49,248	\$ 58,982
Deferred revenue (note 3)	<u>11,500</u>	<u>11,500</u>
	<u>60,748</u>	<u>70,482</u>
NET ASSETS		
Net assets invested in capital	45,341	59,012
Members' loans (note 4)	132,570	127,411
Restricted for capital purposes	12,764	-
Unrestricted net assets	<u>63,987</u>	<u>25,942</u>
	<u>254,662</u>	<u>212,365</u>
	<u>\$ 315,410</u>	<u>\$ 282,847</u>

Approved on behalf of the Board:

 Director

 Director

The accompanying notes form an integral part of these financial statements.

KARMA CO-OPERATIVE INC.**(Incorporated Under the Co-Operative Corporations Act of Ontario)****STATEMENT OF CHANGES IN NET ASSETS****YEAR ENDED MAY 31, 2007**

	Invested in capital assets	Members' loans (note 3)	Restricted for capital purposes	Unrestricted	2007 Total	2006 Total
BALANCE						
- Beginning of year	\$ 59,012	\$ 127,411	\$ -	\$ 25,942	\$ 212,365	\$ 211,007
- Excess (deficiency) of revenues over expenses	(13,671)			34,148	20,477	(9,364)
- Net membership revenues				194	194	1,988
- Contributions during the year			12,764		12,764	
- Members' loans received - net		8,862			8,862	8,734
- Forfeited members' loans (note 4)	_____	<u>(3,703)</u>	_____	<u>3,703</u>	_____	_____
BALANCE						
- End of year	\$ <u>45,341</u>	\$ <u>132,570</u>	\$ <u>12,764</u>	\$ <u>63,987</u>	\$ <u>254,662</u>	\$ <u>212,365</u>

The accompanying notes form an integral
part of these financial statements.

KARMA CO-OPERATIVE INC.**(Incorporated Under the Co-Operative Corporations Act of Ontario)****STATEMENT OF OPERATIONS****YEAR ENDED MAY 31, 2007**

	2007	2006
SALES	\$ <u>1,712,039</u>	\$ <u>1,622,582</u>
COST OF SALES		
Inventory - Beginning of year	126,279	97,093
Purchases	<u>1,333,333</u>	<u>1,326,459</u>
	1,459,612	1,423,552
Inventory - End of year	<u>118,017</u>	<u>126,279</u>
	<u>1,341,595</u>	<u>1,297,273</u>
	GROSS PROFIT	<u>370,444</u>
EXPENSES	<u>370,444</u>	<u>325,309</u>
Store wages and payroll costs	276,986	261,646
Office and general	19,893	18,626
Utilities	16,769	14,652
Bank charges and interest	6,428	6,047
Realty taxes	6,147	5,389
Repairs and maintenance	6,029	9,458
Telephone	4,390	4,003
Insurance	4,276	3,764
Audit fees	1,300	1,300
Amortization	<u>13,671</u>	<u>13,671</u>
	<u>355,889</u>	<u>338,556</u>
	OPERATING PROFIT (LOSS)	<u>14,555</u>
	<u>14,555</u>	<u>(13,247)</u>
Add - sundry revenue	4,286	3,143
- interest earned	<u>1,636</u>	<u>740</u>
	<u>5,922</u>	<u>3,883</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENSES	\$ <u>20,477</u>	\$ <u>(9,364)</u>

The accompanying notes form an integral part of these financial statements.

KARMA CO-OPERATIVE INC.
(Incorporated Under the Co-Operative Corporations Act of Ontario)
SCHEDULE OF MEMBERSHIP REVENUES AND EXPENSES
YEAR ENDED MAY 31, 2007

	2007	2006
REVENUE	\$ <u>18,169</u>	\$ <u>18,626</u>
EXPENSES		
Administration	8,353	7,968
Newsletter	4,672	3,275
Members' meetings	1,978	989
Committee expenses	1,672	3,106
Audit fees	<u>1,300</u>	<u>1,300</u>
	<u>17,975</u>	<u>16,638</u>
NET MEMBERSHIP REVENUE	\$ <u>194</u>	\$ <u>1,988</u>

The accompanying notes form an integral part of these financial statements.

KARMA CO-OPERATIVE INC.**(Incorporated Under the Co-Operative Corporations Act of Ontario)****STATEMENT OF CASH FLOWS****YEAR ENDED MAY 31, 2007**

	2007	2006
Cash and cash equivalents provided by (used in):		
Operating activities:		
Excess (deficiency) of revenues over expenses	\$ 20,477	\$ (9,364)
Net membership revenue	<u>194</u>	<u>1,988</u>
	<u>20,671</u>	<u>(7,376)</u>
Adjustments for:		
Amortization	<u>13,671</u>	<u>13,671</u>
Changes in non-cash working capital:		
(Increase) decrease in inventory	8,262	(29,186)
Decrease in prepaid expenses and sundry assets	3,395	1,266
Increase (decrease) in accounts payable and accrued liabilities	(9,734)	1,530
Increase in deferred revenue	<u>-</u>	<u>11,500</u>
	<u>1,923</u>	<u>(14,890)</u>
Cash flow from operating activities:	<u>36,265</u>	<u>(8,595)</u>
Cash flow from investing activities:		
Increase in capital assets	-	(15,565)
Increase in loan - ONFC	(2,837)	(3,081)
Increase in shares in Alterna Savings Credit Union	<u>-</u>	<u>(2)</u>
	<u>(2,837)</u>	<u>(18,648)</u>
Cash flow from financing activities:		
Members' loans received - net	8,862	8,734
Increase in capital contributions from members	<u>12,764</u>	<u>-</u>
	<u>21,626</u>	<u>8,734</u>
Net increase (decrease) in cash and cash equivalents	55,054	(18,509)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>60,032</u>	<u>78,541</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 115,086</u>	<u>\$ 60,032</u>

NOTES TO FINANCIAL STATEMENTS

KARMA CO-OPERATIVE INC.**(Incorporated Under the Co-Operative Corporations Act of Ontario)****MAY 31, 2007****1. SIGNIFICANT ACCOUNTING POLICIES**

- (a) Inventory is valued at the lower of cost, on the first-in, first-out basis and net realizable value.
- (b) Amortization was provided at the following annual rates consistent with those of the preceding period:

Building improvements	- 5%	of cost
Building	- 2 1/2%	of cost
Equipment	- 20%	of cost
Computer software	- 33 1/3%	of cost

- (c) The organization does not account for contributed materials and services.

2. CAPITAL ASSETS

	Cost	Accumulated Amortization	2007 Net	2006 Net
Land	\$ 6,412	\$ -	\$ 6,412	\$ 6,412
Building improvements	102,007	84,329	17,678	22,778
Building	40,000	30,000	10,000	11,000
Equipment	67,297	56,046	11,251	18,516
Computer software	<u>2,685</u>	<u>2,685</u>	<u>-</u>	<u>306</u>
	\$ <u>218,401</u>	\$ <u>173,060</u>	\$ <u>45,341</u>	\$ <u>59,012</u>

3. DEFERRED REVENUE

	2007	2006
The Co-operators (Grant)	\$ 10,000	\$ 10,000
Ontario Co-operative Association (Grant)	<u>1,500</u>	<u>1,500</u>
	\$ <u>11,500</u>	\$ <u>11,500</u>

4. MEMBERSHIP LOANS

The Co-operative has recorded all membership loans received from its inception (1972) to date in its accounts. The loans payable to active members amount to \$132,570 (2006 - \$127,411). While reasonable effort has been made to repay membership loans to terminated members, the Co-operative members, in accordance with the Co-operative's by-laws, have adopted the policy of forfeiting all outstanding loans from members who have been inactive for eight years or more. The Board of Directors determined that of the total of membership loans, \$3,703 will not be repaid and is treated as forfeited in the current year to the Co-operative and is included as unrestricted net assets.

5. The amount of business transacted during the year with non-members was less than 5%.

ANALYSIS OF OPERATIONS**YEAR ENDED MAY 31, 2007****UNAUDITED**

Treasurer's/Finance Committee Report (Rolf Struthers, per Anil Reddi)

Greetings fellow members!

The Fiscal Year

Financially, 2006-2007 was a good year for Karma. As the audit indicates, we have a surplus of \$20,000. Overall, our sales rose from \$1,622,582 to \$1,712,039, and even more importantly, our gross margin increased by approximately 1.5%. We managed to keep our expenses in line through constant discussion about the budget with management. Thus, we were able to achieve a small, but significant surplus. Also importantly, Karma made progress with regard to shrink – we were able to bring the shrink figure down from last year's 8.18% to 5.71%. That's a savings of \$31,706. Our success at reducing shrink should spur the new Board to continue to be vigilant and find new ways to reduce shrink further since this contributes, in a major way, to the overall financial success of the store. Congratulations to all staff and members for a job well done.

The Line of Credit

The Finance Committee recommended that the Board secure a line of credit to finance the renovation being contemplated for the store. We approached Alterna Savings, who recommended a line of credit secured by the value of the building. They required an appraisal of the building, which was done at a cost of \$2,700. Alterna agreed to offer a line of credit equal to 60% of the appraised value, or \$300,000. The Board is in the process of submitting the documents necessary to open the line of credit.

Big Buck Loans

The Finance Committee and Treasurer agreed to pursue other types of borrowing as well, so as to avoid, as much as possible, using the line of credit. In the past Karma has used "Big Buck Loans" (loans from our members, this time around a minimum of \$500) as an additional way of borrowing funds. These loans would be paid interest (following Alterna's rates), and serve to keep the funds within our community. Borrowing from ourselves is in our own best interest. However, the hitch is that in 2007 we are required to complete and file an Offering Statement with the provincial government because we may, with the additional loans (additional to the approximately \$145,000 we currently hold in loans made by members when they join Karma) go over the \$200,000 ceiling established by the province. Exceeding the ceiling would mean that every new member would have to be presented with the document if they wished to join Karma. The Finance Committee thought it would be wise to have the document prepared and presented to all members who may wish to offer us a Big Buck Loan. Our solicitor, Brian Iler, has examined the document and the Finance Committee is now proceeding with their final edits. Once this is complete, Karma will be submitting the document to the Province for review, and once the review is complete we will be ready to solicit Big Buck Loans.

The Budget 2007-2008

The 2007-2008 store budget projects a small increase in sales of 3%, and an allowance of \$4,500 for a green power option (to be allocated to Bullfrog Power, Green Tags Ontario or another option). The wages budget includes a 3% cost-of-living-allowance increase. We have added a debt service line to address the financing costs of the renovation.

The 2007-2008 members' budget maintained the membership fee at \$18.00. However, increasing costs for the Member Labour Coordinator and for the Chronicle make it extremely likely that the fee will rise next year. The Chronicle, which is budgeted \$600 per issue, has been coming in at this cost so far this year. However, this is because Chronicle Committee member Jennifer Ralston, after discussion about the Chronicle's budget at the Committee Caucus, managed to obtain a donation of paper stock from AIM Group. Thanks Jennifer!

The Model

The Finance Committee and Treasurer agreed to retire the Stein model, in favour of reports produced using our

present bookkeeping software. The Committee and Treasurer are still refining the reports, trying to find the best way to condense raw data into a useful format.

The Bookkeeper

Our bookkeeper, Denise Stapleton was on leave this year in order to care for her new baby. Congratulations Denise! While Denise was away, fellow member Dwight Aranha filled in, and did an outstanding job for Karma. Thanks Dwight! At the August 16th Board meeting, the Board adopted the recommendation of the Finance Committee and Treasurer that they supervise the bookkeeper directly.

The Outlook for 2007-2008

Over the last three months, sales have been flat as compared to last year. This is a worrisome trend, and the Board, Treasurer, Finance Committee and management staff will have to keep a close eye on sales and adjust accordingly to stay on course and on budget.

The Committee

This year the Committee was composed of Donald Altman, John Biggs (chair), Harry Koster and Charlie Lior. On behalf of the membership I would like to thank the Committee members for all their hard work. Thanks!

President's Report (Rolf Struthers)

Greetings Fellow Members and Welcome to Karma's Annual General Meeting!

At the last AGM the incoming Board inherited the following three goals:

- To address the budget shortfall and bring the store into financially positive territory by working closely with the general manager on the current budget and changing systems in the store to address the shrinkage problem.
- To create a plan for the purchase of new coolers and other building repairs following the adoption of the building fee. This meant looking for ways to fund the repairs (a line of credit, Big Buck Loans, fundraising) and supporting the Physical Planning Committee's research and planning.
- To implement the Committee of Committees and the committee caucuses, two mechanisms which allow the committees to interact with each other and liaise with the Board.

How are we doing?

- The Board and the staff managed to reduce shrink from 8.18% to 5.71%. Together we brought the store into a positive financial position. While it is encouraging that shrink has decreased I believe we can get even better results by being more diligent at the cash, accounting for every item in our boxes or bags of groceries, and by improving our accounting and tracking systems at the store.
- The Physical Planning Committee has been researching new plans for the store's layout. They determined that tearing out the old cooler is actually an opportunity to figure out where, optimally, everything should go in the store. I believe their current plan improves upon the present store in ways that will be beneficial to all of us. The Board and the Finance Committee have been working on an application to Alterna Savings for a line of credit and a Big Bucks Loan offering statement. They have been brainstorming other fundraising ideas to raise money for the work on the store.
- The Board liaisons to the Committee of Committee, Micki and I, have worked hard to energize the Committee itself, engage the committee representatives to report to the committee caucus what each committee is working on and to engage the caucus to work on committee issues such as committee policy (committee mandates, membership, membership reporting) and the relationship of committees to members, the Board and staff.

Communication

The Board had serious problems this year communicating with the membership. Our minutes often got bogged down in corrections, which delayed their posting in the store and on the website. This should not have happened and I apologize to the membership for the delays, which I am still trying to rectify at the time of writing. The membership has the right to be informed of the work of the Board through the minutes and we were remiss in not posting and sending a copy to the website in a more timely fashion.

I also was specifically taken to task in an article in the Chronicle by member Howard Kaplan for not reporting more completely on the ongoing work of the Board. My response to that article was an attempt to ensure that minutes were completed and posted in the store and on the website. Howard also called attention to the state of the bylaws. I have asked Howard to update our bylaws and ensure that a complete current version is filed with our Board Secretary and with our solicitor. I have also tried to ensure that other Board records, including AGM minutes, in-camera documents and other committee documents, are up-to-date and on file with the current Secretary of the Board. I have also been working on the store's operating documents to ensure that they are all in good standing. With regard to the way in which the Board uses e-mail, a point that Howard raised in his article, it is very important to understand that much of the Board's (and the committees of the Board's) communication occurs through e-mail discussion group. This method is an efficient way to quickly organize meetings, determine whether or not there will be quorum, etc. However, when it does not work it can lead to communication breakdown, one-way diatribes and bombast. The Board is working on a methodology for making decisions over e-mail, but needs advice as to what methodology would be appropriate. I would suggest that the Governance Committee take on the task of recommending an appropriate way in which the Board can use e-mail for discussion, and perhaps decision-making.

At the Store

This year we concentrated on balancing the budget and reducing shrink. We were fortunate to be successful on both fronts. Continued vigilance by the Board and the GM will be needed to maintain this standard. Our GM, Graeme Hussey, also resigned in August and I would like to again thank Graeme for his contribution to Karma as GM. Lisa, our grocery manager has also moved on and I would like to thank her for her work and dedication. We miss her already! Acting GM Michael Armstrong has really come through for Karma during these difficult times and continues to manage the store while the Board searches for a new GM. Thanks Michael!

At the Board

Two members of the current Board resigned their positions during their terms: John Viktorin and John Richmond. On behalf of the membership, I would like to thank them both for their work while on the Board. Donald Altman came on the Board in August and I would like to thank him for joining us to complete our Board term.

The Referendum

The Board's June 7 motion, which adopted the physical planning committee's recommendation for the repair and renovation of the store, also called for "member ratification by majority vote by a non-binding advisory vote to be conducted by a method that makes use of the preliminary work of the Governance Review Committee." This means that members can expect to be consulted within the next few months on the plans that have been approved by the Board for the store's repair and renovation. This advisory vote will act as a pilot project for the Governance Review Committee, which has been developing procedures for this type of member consultation. Although the vote is non-binding and advisory, it is expected that the Board will take the results of the vote very seriously before proceeding with the renovation plan.

Many Thanks!

I have had the pleasure of meeting many members in the store and through various committee meetings. I would like to express my gratitude to everyone I met with and I truly appreciate the opportunity to engage and debate

the issues we are working on on behalf of Karma. I encourage everyone to become as involved in Karma as they can. My time on the Board has taught me a lot about myself, and of course a great deal more about Karma. Karma is here due to a long history of member participation in all aspects of its operations and it will continue to flourish with your involvement.

This year became the year of the 100-mile diet. The irony I'm sure hasn't been lost on the members of Karma, as we have striven for 35 years now to eat locally grown, healthy food. But, it does signal that, once again, people are turning their attention to many of the questions we have been struggling with throughout our history. Where does food come from? Is it grown in a healthy sustainable manner? Is it healthy, whole food? Do genetic manipulation, chemical additives or chemical pesticides taint it? Are we supporting local, alternative fair trade and socially responsible businesses or faceless, giant agri-businesses? What are the lasting ramifications of sourcing food from thousands of kilometres away? The debate goes on every day at our cooperative, and for 35 years we have found a good way from field to table.

This past year your Board consisted of Mohsen Ahmed, Deborah Cherry (Secretary), Charles Danzker, Margaret Knittl (VP), Micki Honkanen, Anil Reddi (Treasurer), Rolf Struthers (President), and Jonathan Tracey (Hiring Committee).

As of this writing, Mohsen Ahmed, Micki Honkanen, Jonathan Tracey and myself have all completed our terms on the Board. On behalf of the membership, I thank each of you for your contribution to the Co-op. You will be missed. Thank-you for your patience and your friendship.

Deborah Cherry, Charles Danzker, Margaret Knittl and Anil Reddi will be continuing into the second year of their two-year terms. May you all have as much success as this year's Board with the challenges that you face: implementing the store renovations, encouraging staff new and old, and engaging the membership in general to participate, participate and get involved!

After literally thousands of e-mails and dozens of meetings it's time to say adieu.

It has been a joy to serve and I thank the membership for the opportunity. The errors that I have made over the year are my fault alone and the successes belong to us all.

Rolf Struthers - President – Karma Cooperative Inc. 739 Palmerston Ave. To.

Brought to you by Karma - from field to table – goodness from the ground up

Interim General Manager's Report (Michael Armstrong)

Introduction

As of June 1st, 2007, I have been the Acting General Manager at Karma while continuing on as Produce Manager. This appointment was originally for a three month term while Graeme Hussey took a parental leave of absence. During that period, Graeme decided to move on from Karma, at which point I agreed to an extension of my term as Acting GM until a permanent hire is found. The past four and a half months have been challenging: a fiscal year-end audit in June, the implementation of membership fee collections, negotiating our line of credit (thank you Rolf for taking this one on), and facilitating staffing changes and training, all while ensuring the operations of the Co-op meet the goals and objectives established by the Karma Board of Directors. Given these circumstances, I will do my best to outline my accomplishments and challenges during the past year, based on the General Manager job description. I will also include some suggestions, as we go into the next year.

Budget and Financial Accountability

Accomplishments

- As noted in the final audit for the fiscal year ending May 31st, 2007, there was a surplus of \$20,000 with

a substantial reduction of product loss (shrink). I would attribute this to careful inventory control and implementation of the new policy requiring members to bring their purchases to the cashier, reducing mistakes and theft.

Challenges

- Securing store renovation financing.
- With major staffing shortages during my term, ensuring the proper tracking of inventory has not always been possible.

In the next year (suggestions)

- To continue to look into and possibly implement a point-of-sale system.

Operations and Maintenance

Accomplishments

- One aging cooler was replaced, otherwise no significant changes.
- Staff member Filip Haderer continues to work with member labour in an effort to keep the store fit until larger-scale renovations occur.

Challenges

- Ensuring that Karma's building and capital equipment were in working order.

In the next year

- To help facilitate store renovations and repairs.

Purchasing and Merchandising

Accomplishments

- The phasing-out of genetically modified foods.
- Careful daily and monthly tracking of all perishable inventory.

Challenges

- Karma continues to find its place among the growing number of farmer's markets and conventionally-operated grocery stores that have focused on selling more of the products which we carry.

In the next year

- To continue with more comprehensive inventory tracking.
- Eventual renovations will dictate new merchandising opportunities.

Human Resources

- We have two new clerks: Sophia Muller and more recently Vanessa Butterworth. Both are a welcome addition to Karma's staff.
- Lisa Mclean (Grocery Manager) has left us after five years employment here. We wish her all the best. Lisa is still a member of Karma and we hope to see her in the co-op.
- Sara Pulins has replaced Lisa as Grocery Manager while still ordering Health and Beauty Aids (HABA). The pricing and merchandising of HABA products will now be done by all staff.
- Christine Delay has taken on the role of Member Labour Co-ordinator left by Sara.

Other Points

- The tree growing behind our "garbage shed" which stretches across our parking lot has almost

completely destroyed our neighbour's fence and a portion of her garden. For quite some time, she has asked us to remove the tree, as it continues its rapid growth. I've consulted with Andrea Dawber of Trees Davenport and Todd Irvine of L.E.A.F. Toronto, both of whom confirm that the tree is a Manitoba Maple. Although native to North America, it is considered an invasive species as it can quickly overtake both cultivated and uncultivated areas. In addition, it is growing at a 45-degree angle, making this fast-growing and short-lived tree susceptible to collapse. I have suggested (as did Todd and Andrea) creating a site in our lot to plant a native species tree with old growth potential after removing the maple.

Conclusion

Despite many changes and challenges, Karma remains in good shape. With the help and co-operation of staff, the Board, committees and members, I am expecting a smooth transition toward a new, permanent GM. My intention is to help facilitate this, and then return as full time Produce Manager.