Karma Co-operative, Inc.
Annual General Meeting
October 18, 2010
Documents and Reports

Article 4 of the by-laws, concerning members' meetings, as word art

Contents

Karma Co-operative
Annual General Meeting
October 18, 2010
6:30pm – 9:30pm
Friends' House
60 Lowther Ave, Toronto

Agenda

5:30	Doors open Meeting registration begins Snacks served Alternative member labour job fair
6:25	Call to order
6:30	Approval of the agenda Approval of the minutes of the previous Annual General Meeting
6:35	Treasurer's report and Auditors' report
6:50	Discussion of the two reports
7:05	Motions to receive the financial statements and to reappoint the Auditors
7:10	Consideration of proposed by-laws amendments
7:40	Review of election procedures and nominations for two year terms
8:00	First ballot, if required, for the two year terms * Ten-minute break during ballot collection
8:10	Discussion of proposed changes to the member loan and fees (the continuation of discussions that began at the February forum)
8:35	Announcement of winners of election to two-year terms Nominations and second ballot, if required, for the one year term
8:50	President's report
8:55	General Manager's report
9:05	Announcement of winners of election to one-year terms Discussion of the two reports
9:15	Motions to receive the President's and General Manager's reports Discussion of written committee reports
9:30	Adjournment and cleanup

* If no ballots need to be cast for the two-year terms, then the nominations and elections for the one-year term will immediately precede the ten-minute break.

Minutes of the 2009 Annual General Meeting of Karma Co-Operative Inc.

2009 October 19, 6:30 p.m., Society Of Friends House, 60 Lowther Avenue

Minutes recorded and prepared by Karen Kaplan, condensed by Howard Kaplan

Appendices to the minutes:

- Package of agenda, minutes of the 2008 AGM and reports for 2009, made available to the membership prior to the meeting, and incorporating the one-page Analysis of Operations, unaudited, which should have been included in the package but was instead made available at the meeting
- Biographies of six people who had agreed to stand for election to the Board, made available at the meeting
- Discussion Record of the 2009 annual general meeting (containing more detail of the discussions than is in the minutes)

Ninety-four Karma members attended the meeting.

Board members present: Harry Koster (President), Sarah Pretty (Vice-President), Donald Altman (Treasurer), Reg McQuaid (Secretary), Corey Berman, Arthur Jacobs, Howard Kaplan, ahdri mandiela, jae steele, Kevin Taylor

The meeting was called to order at 6:37 by Harry Koster, Karma Board President. Harry chaired most of the meeting, sometimes assisted by Sarah Pretty, Karma Board Vice-President.

Approval of Agenda

The Chair called for a motion to approve the agenda.

Moved by Arel Agnew, seconded by Terry Fowler.

The motion was carried.

The agenda that was approved follows [bracketed notes indicate ways in which the actual meeting deviated from the agenda, other than deviations from planned times]:

6:25 Call to order

6:30 Approval of the agenda

Approval of minutes of the previous Annual General Meeting

6:35 Treasurer’s report and Auditor’s report

6:50 Discussion of the two reports [did not await the completion of both reports]

7:10 Motions to receive the financial statements and to reappoint the Auditor

7:15 President’s report

7:20 General Manager’s report

7:30 Discussion of the two reports [did not await the completion of both reports]

7:40 Motions to receive the President’s and General Manager's reports [these motions were instead entertained at the end of each report]

7:45 Review of election procedures and nominations for two year terms

8:10 First ballot, if required, for two year terms * [ballot was not required]

8:20 Report from the Negotiating Committee:

A brief status report about progress in negotiating a contract with Local 1281

8:30 Introductory discussion of alternate membership and fee structures:

The meeting will hear some recent ideas about how we might change our

membership arrangements, to help the next Board decide whether any

of these ideas should be studied in more detail [only the introduction to this item was dealt with in the meeting]

8:55 Announcement of winners of election to two-year terms [not needed]

Nominations and second ballot, for one year terms *

9:00 Further discussion regarding the financial situation: [this item was not dealt with in the meeting]

The meeting will choose between the following two options

- continue discussing membership arrangements that might increase sales

- discuss other reasons for lower sales and what we can do about them

9:30 Announcement of winners of election to one-year terms

Adjournment and cleanup

* If no ballots need to be cast for the two-year terms [as they did not], then the nominations and elections for the one-year terms will immediately follow the declaration that the two-year nominees have been elected by acclamation [as did occur].

Approval of the minutes of the previous Annual General Meeting

The Chair called for a motion to approve the minutes from the 2008 annual general meeting.

Motion to accept the minutes from the 2008 annual general meeting

Moved by Judy Skinner, seconded by Sue Honsberger

This motion was withdrawn a few minutes later in favour of a different motion.

Many people expressed concerns regarding the quality of the minutes of 2008 as a formal record of the meeting.

Moved by Karen Kaplan that the Board arrange for the minutes of Karma's 2008 annual general meeting to be re-written to make sense and that the Board be delegated to accept the minutes as a record of that meeting when, in its determination, they accurately and coherently reflect what occurred at that meeting. Seconded by Howard Kaplan.

People offered their annotated minutes to aid in making a better version, and it was agreed these would be collected.

The motion was carried.

Treasurer's report and Auditor's report and discussion of the two reports

Donald Altman, Karma Treasurer, referred to his printed report and said that he would simply highlight a few matters (note that "2009" means the financial year ending 2009 May 31): the $90,000 larger operating loss in 2009 than one year earlier; the lower membership, sales, and sales per member; the increased shrinkage; the increase in expenses, especially amortization and consulting; the significant conversion of cash, including cash borrowed on our line of credit, to other fixed assets; the cumulative net deficit at the end of the year.

Winston Lum, of the accounting firm Berman, Lofchick & Lum, said this was the toughest year for Karma he ever needed to audit (though our sales decline was similar to that of other businesses in the recession) and commended Donald on his Treasurer's report. As a formality, he read out the last paragraph of the auditors' statement.

The discussion on the report included losses due to power failures, lower utility costs, checkout policies to reduce shrinkage, cash back on debit transactions, member re-orientation, staff reductions, staff costs, quarterly financial reports, and consulting costs.

Motions to receive the financial statements and to reappoint the Auditor

Motion to receive the financial statements as approved by the Board, the auditors' report on the statements, and the Treasurer's report.

Moved by Donald Altman, seconded by Terry Fowler.

Carried.

Motion to reappoint the firm of Berman, Lofchick & Lum, LLP, as external auditor for fiscal 2009-2010.

Moved by Donald Altman, seconded by Harry Koster.

Carried.

President's report

Harry Koster, Chair of the outgoing Board, called attention to his written report (which was largely about the staff's having chosen to be represented by a union) and added comments on some additional items: our mission statement, and the possible use of variable markup to promote some items.

The discussion on the report included the union situation and the Chronicle, and there was some concern that the last section of the written report could be construed as inappropriately anti-union.

Moved by Arel Agnew [to remove the contentious last section] that the meeting accept the President's report up to and including the sentence: "Our staff is becoming more adept at ordering, and those who are not have had the duties taken over by those who are."

Seconded by Betsy Carter

Discussion of the motion included issues unrelated to the motion, such as the Board's authority to "fire" staff and other models of co-operative organization, and the counter-proposal that the meeting "receive" the President's report, with the idea that this would have no connotation of approval. In response to this suggestion, the motion on the floor was voted on, and not carried.

Moved by Margaret Knittl that the President's report be received, seconded by Art Jacobs.

Carried (yes: 42; no 13).

General Manager's report

General Manager Justin McNabb discussed the need to increase membership, the staff's willingness to take on additional buying responsibilities, his continuing good relationship with staff despite the contract negotiations, the personal and organizational difficulties caused by the large loss, the forthcoming cash registers, and the recent membership increase.

Discussion included re-orientation of current members, the need to enhance Karma's democratic processes, and praise for Michael Armstrong's handling of the produce department.

Moved by James Davis that the General Manager's report be received, seconded by Arel Agnew.

Carried.

Justin received an enthusiastic round of applause.

The Chair called a break.

Election of Board members

Review of election procedures and nominations for two year terms

Harry called the meeting back to order at 8:40 for the election of Board members. He named current Board members who would be continuing: Sarah Pretty, Reg McQuaid, and Art Jacobs. Seven seats were vacant, five for two-year terms, two for one-year terms.

A motion was requested to approve James Davis and Niki Popper as joint Chairs of the election process.

Moved by Rob [who?], seconded by Harry Koster.

Carried.

James Davis reviewed the procedure for elections: two separate elections are required, first for five two-year terms, then for two one-year terms. Each has its own ballot, which members were given when they checked in. Ballots must be marked for exactly the required number of candidates; otherwise they cannot be counted.

Sarah Pretty, Nominations Chair, nominated the following five people for two-year terms:

Arel Agnew

Corey Berman

Hilary Gibson Wood

Angela Lee

Benjamin Watts.

Each of these people reaffirmed their willingness to stand. Nominations from the floor were called for. There being none, nominations were closed. Each nominee spoke briefly, reiterating or adding to what they had previously written.

Moved by Marc Coulavin that the five candidates for two-year terms be acclaimed, seconded by Jerry Lee Miller.

Carried.

Marc Coulavin expressed thanks to all the candidates for running.

Nominations and second ballot, for one year terms

James Davis called for the nomination of candidates for the two one-year terms.

Sarah Pretty nominated the following two people for one-year terms:

Howard Kaplan

Danielle Thibodeau.

Justine Silver nominated Rick Conroy.

There being no further nominations, nominations were closed. All three nominees agreed to stand for election. Each nominee spoke briefly.

A vote being required, non-members were asked to leave the room; the doors were closed; ballots were marked and collected.

The meeting was reminded of last year's discussion of a possible by-law change to increase the length of Board members' terms of office or the number of consecutive years a member can serve on the Board; no vote had been taken, as there had not been adequate notice of the change last year, nor was the item placed onto this year's agenda.

Moved by Judy Skinner that the incoming Board bring to next year's AGM a motion to amend the by-laws to extend terms or term limits to allow longer service on the Board, seconded by Donald Altman.

Carried.

Report from the Negotiating Committee: A brief status report about progress in negotiating a contract with Local 1281

While votes were being counted, Harry Koster informed members about the negotiations, to the extent that could be done while keeping some matters confidential. He said that Karma's Negotiating Committee had consisted of himself and Margaret Knittl (Board Chair prior to Harry's term), with the assistance of consultant Ken Godevenos, whom he introduced to the meeting. Questions and comments were taken from the floor. Matters discussed included the fate of our member labour system under any new contract, issues being discussed in the contract, poor communications from the Board about the certification and negotiations process, time limits on negotiations, the future membership of the Negotiating Committee, and the relationship between the Committee and the Board.

Announcement of winners of election to one-year terms

James Davis announced that Howard Kaplan and Danielle Thibodeau had been elected to the two one-year terms. He reminded the meeting that the ballots would be destroyed.

Further discussion regarding the financial situation

Corey Berman was given the floor, well after the scheduled time for his presentation. He mentioned triple bottom line accounting, where the three elements are social, environmental, and financial; currently however we need immediate financial solutions, large scale and small. He suggested that members shop more at Karma, tell people about Karma, and contribute skills and energy to bettering Karma.

Discussion included a request for another meeting to continue Corey's presentation and gauge member reaction, a suggestion that members develop new skills to aid Karma, and a request for help in finding inexpensive meeting places.

Adjournment

As we were required to leave the building, the meeting was adjourned at 10:03, immediately after a draw for a gift basket.

Introduction to the financial statements and Treasurer's report, 2010

Howard Kaplan, Treasurer

The audited annual financial statements are prepared by our Auditors, based on data maintained by our Bookkeeper, Denise Stapleton. The statements are in a format required by accounting standards and the Co-operative Corporations Act, that format not always being the easiest for members to understand. After the Finance Committee reviews the draft statements, any necessary corrections are made, the Board approves the statements, and the final statements are delivered to us in both computer file and hardcopy format.

Below, you will find the scanned images of two pages from the hardcopy audited statements, the Auditors' report and the balance sheet. The former is signed by Berman, Lofchick, & Lum, our Auditors; the latter is signed by Howard Kaplan and Corey Berman, two Board members. On the following pages you will find the complete financial statements, including these two pages, as full-page images in a more condensed file storage format.

BERMAN, LOFCHICK & LUM, LLP
CHARTERED ACCOUNTANTS

JERRY BERMAN, Bsc.C.A.
MARSHALL LOFCHICK, B.A. (HONS.) C.A.
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AUDITORS' REPORT

We have audited the statement of financial position of Karma Co-Operative Inc. as at May 31, 2010 and the statement of changes in net assets, operations, schedule of membership operations 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, 2010 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.
August 9, 2010.

CHARTERED ACCOUNTANTS.
Licensed Public Accountants.

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KARMA CO-OPERATIVE INC.

(INCORPORATED UNDER THE CO-OPERATIVE CORPORATIONS ACT OF ONTARIO)

STATEMENT OF FINANCIAL POSITION

MAY 31, 2010

	2010	2009
ASSETS		
Current		
Inventory	$ 117,943	$ 112,635
Prepaid expenses and sundry receivables	4,167	21,743
	122,110	134,378
Capital - at cost less accumulated amortization (note 2)	283,143	291,298
Other - at cost		
Membership loan - ONFC	35,039	35,039
Shares in Toronto Renewable Energy Co-operative	2,000	2,000
Shares in Alterna Savings Credit Union	210	206
	$ 442,502	$ 462,921
LIABILITIES		
Current		
Bank indebtedness	$ 30,005	$ 36,802
Bank line of credit (note 3)	65,597	88,909
Accounts payable and accrued liabilities	25,915	30,380
Building loans (note 4)	65,500	60,000
	187,017	216,091
NET ASSETS		
Net assets invested in capital	152,046	142,389
Members' loans (note 5)	128,376	128,959
Unrestricted net assets	(24,937)	(24,518)
	255,485	246,830
	$ 442,502	$ 462,921

Approved on behalf of the Board:

Howard Kaplan Director

C Berman Director

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

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BERMAN, LOFCHICK & LUM, LLP
CHARTERED ACCOUNTANTS

Following the audited statement, you will find a one-page statement that I prepared, looking at our results from a different perspective and highlighting shrinkage, one of our key financial indicators. Shrinkage is a measure of what we buy that we cannot sell, because it is lost to damage, loss of freshness, pricing errors, or pilferage. This statement is unaudited, primarily because there are no auditing standards defined for that statement. However, the numbers in the statement are derived from the numbers in the audited statements, wherever possible.

After the financial statements, you will find my Treasurer's report. In that report, I try to present the financial highlights in a different format that members might find more accessible.

KARMA CO-OPERATIVE INC.

(INCORPORATED UNDER THE CO-OPERATIVE CORPORATIONS ACT OF ONTARIO)

FINANCIAL STATEMENTS

YEAR ENDED MAY 31, 2010

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Respectfully submitted,

[Signature of Berman, Lofchick, & Lum]

CHARTERED ACCOUNTANTS.
Licensed Public Accountants.

Toronto, Ontario.
August 9, 2010.

This page was originally three separate pages, combined into one page for printing purposes

KARMA CO-OPERATIVE INC.

(INCORPORATED UNDER THE CO-OPERATIVE CORPORATIONS ACT OF ONTARIO)

STATEMENT OF FINANCIAL POSITION

MAY 31, 2010

	2010	2009
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Net assets invested in capital	152,046	142,389
Members' loans (note 5)	128,376	128,959
Unrestricted net assets	(24,937)	(24,518)
	255,485	246,830
	$ 442,502	$ 462,921

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, 2010

	Invested in capital assets	Members' loans (note 5)	Unrestricted	2010 Total	2009 Total
BALANCE					
- Beginning of year	$ 142,389	$ 128,959	$ (24,518)	$ 246,830	$ 318,952
- Excess (deficiency) of revenues over expenses	(26,774)		22,022	(4,752)	(49,420)
- Net membership revenue			5,300	5,300	(611)
- Purchases of capital assets - net of related debt	36,431		(36,431)		
- Members' loans received - net		8,107		8,107	2,167
- Forfeited members' loans (note 5)		(8,690)	8,690		
- Prior years' building fees allocated to income				-	(24,258)
BALANCE					
- End of year	$ 152,046	$ 128,376	$ (24,937)	$ 255,485	$ 246,830

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, 2010

	2010	2009
SALES	$ 1,467,212	$ 1,442,285
COST OF SALES		
Inventory - Beginning of year	112,635	112,652
Purchases	1,144,245	1,152,311
	1,256,880	1,264,963
Inventory - End of year	117,943	112,635
	1,138,937	1,152,328
GROSS PROFIT	328,908	289,957
EXPENSES		
Store wages and payroll costs	230,958	277,642
Office and general	21,872	20,699
Consulting costs	19,689	11,143
Utilities	15,913	15,112
Bank charges and interest	10,002	8,105
Realty taxes	7,862	7,294
Telephone	4,487	4,781
Insurance	4,198	4,156
Repairs and maintenance	3,113	9,658
Audit fees	2,080	2,579
Amortization	26,774	19,433
	346,948	380,602
OPERATING LOSS FROM RETAIL OPERATIONS	(18,673)	(90,645)
Add - current year's building fees and donations	11,673	13,643
- sundry revenue	2,243	2,535
- interest earned	5	789
- prior years' building fees	-	24,258
	13,921	41,225
DEFICIENCY OF REVENUES OVER EXPENSES	$ (4,752)	$ (49,420)

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 OPERATIONS

YEAR ENDED MAY 31, 2010

	2010	2009
REVENUE	$ 13,889	$ 15,107
EXPENSES		
Committee expenses	4,371	3,463
Administration	1,661	9,597
Members' meetings	1,385	1,225
Newsletter	652	913
Audit fees	520	520
	8,589	15,718
NET MEMBERSHIP REVENUE (DEFICIENCY)	$ 5,300	$ (611)

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, 2010

	2010	2009
Cash and cash equivalents provided by (used in):		
Operating activities:		
Deficiency of revenues over expenses	$ (4,752)	$ (49,420)
Net membership revenue (deficiency)	5,300	(611)
	548	(50,031)
Adjustments for:		
Amortization	26,774	19,433
Changes in non-cash working capital:		
(Increase) decrease in inventory	(5,308)	17
(Increase) decrease in prepaid expenses and sundry assets	17,576	(18,206)
Decrease in accounts payable and accrued liabilities	(4,465)	(21,305)
	7,803	(39,494)
Cash flow from operating activities:	35,125	(70,092)
Cash flow from investing activities:		
Increase in capital assets	(18,618)	(250,720)
Increase in shares of Alterna Savings Credit Union	(4)	-
Increase in loan - ONFC	-	(343)
	(18,622)	(251,063)
Cash flow from financing activities:		
Members' loans received - net of repayments	8,107	2,167
Prior years' capital contributions from members	-	(24,258)
Increase (decrease) in line of credit	(23,313)	88,909
Increase in building loans	5,500	60,000
	(9,706)	126,818
Net increase (decrease) in cash and cash equivalents	6,797	(194,337)
CASH AND CASH EQUIVALENTS - Beginning of year	(36,802)	157,535
CASH AND CASH EQUIVALENTS - End of year	$ (30,005)	$ (36,802)

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

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 equipment	-	33 1/3%	of cost

Depreciation is computed on a straight-line basis, as a fixed percentage of the original purchase cost each month until the asset is fully depreciated. Assets are depreciated from the month they become usable.

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

2. CAPITAL ASSETS

	Cost	Accumulated Amortization	2010 Net	2009 Net
Land	$ 6,412	$ -	$ 6,412	$ 6,412
Building improvements	363,730	119,337	244,393	260,951
Building	40,000	33,000	7,000	8,000
Equipment	100,454	75,116	25,338	15,613
Computer equipment	3,650	3,650	-	322
	$ 514,246	$ 231,103	$ 283,143	$ 291,298

3. LINE OF CREDIT

2010	2009
$ 65,597	$ 88,909

Karma has secured a commercial line of credit from Alterna Savings and Credit Union Limited to a maximum of $300,000. The line of credit is secured by an open first mortgage on the Co-operative's property located at 739 Palmerson Avenue, Toronto, Ontario. Interest is payable monthly at a variable rate calculated at Alterna Savings' prime rate plus ½%. The purpose of the loan is to finance certain renovations to the Co-operative's property as approved by the Board of Directors.

Continued...

...Continued

4. BUILDING LOANS

The building loans have been received and will be repaid according to the terms of the Offering Statement of Karma Co-operative, Inc. dated May 31, 2008.

Interest is calculated using a rate per annum which is 25 basis points higher than the rate which Alterna Savings and Credit Union is paying for its investment savings account, as of the last day of the month. Interest is paid on the last day of the fiscal year.

Ranking

The demand loans will be direct unsecured obligations of the Co-operative and will rank *pari passu* (equally) with each other and with all other unsecured indebtedness of the Co-operative. The loans are not secured by assets including inventory and accounts receivable.

Repayment

After 1 year the holder of the loan may demand repayment on 60 days notice. If the demand is greater than $1,000 the co-operative may repay up to $1,000 every quarter until the amount is paid in full. The co-operative reserves the right not to redeem more than 10% of all outstanding loans in one fiscal year.

The loans are non-transferrable, repayable only to the lender or, in the case of the death of the lender, to his or her estate.

5. 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 $128,376 (2009 - $128,959). While reasonable effort has been made to repay membership loans to terminated members, the Co-operative has, for accounting purposes, adopted the policy of treating as forfeit 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, $8,690 will not be repaid and is treated as forfeited in the current year to the Co-operative and is included as unrestricted net assets.

Continued...

...Continued

6. FINANCIAL INSTRUMENTS

The Co-operative's financial instruments consist of bank indebtedness, prepaid expenses, membership loans and shares, bank line of credit, accounts payable and accrued liabilities and building loans. It is management's opinion that the Co-operative is not exposed to significant interest, currency or credit risks arising from these financial instruments.

The carrying values of the financial instruments approximate their fair values because of the relatively short period to maturity of the instruments or because they are receivable or payable on demand.

7. TRANSACTIONS WITH NON-MEMBERS

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

Karma Co-operative, Inc.

Analysis of Operations, June 2009 through May 2010, with prior year comparison

Prepared by the Treasurer, Howard Kaplan

Unaudited

	Jun 2009 - May 2010	Jun 2008 - May 2009
SALES (excluding non-work charges)		
Total, after discounts	1,432,310	1,405,210
Discounts given	15,134	11,978
Total, before discounts	1,447,444	1,417,189
PURCHASES		
Cost, net of discounts and inventory changes	1,138,937	1,152,328
GROSS PROFIT (after sales discounts)	293,373	252,882
As a percentage of sales revenue	20.5%	18.0%
OPERATING EXPENSES		
Staff costs: Salaries, wages, contract staff	230,958	285,391
Non-work surcharge plus flat fees (offset against staff costs)	-36,135	-38,265
Other expenses	95,352	91,817
TOTAL OPERATING EXPENSES	290,175	338,943
OPERATING PROFIT	3,198	-86,061
As a percentage of sales revenue after discounts	0.2%	-6.1%
NON-OPERATING ACCOUNTS		
Miscellanous store income (excl. building fees)	0	225
Building fees	11673	10643
Contract negotiations and other consulting	-20637	-11143
TOTAL OPERATING AND NON-OPERATING PROFIT	-5766	-86336
As a percentage of sales revenue after discounts	-0.4%	-6.1%
SHRINKAGE ANALYSIS		
Average retail mark-up	36.2%	34.9%
Net wholesale cost of goods sold	1,062,735	1,050,547
Cost of goods purchased but unsold (shrinkage)	76,203	101,781
Shrinkage as a percentage of wholesale purchases	6.7%	8.8%

The figures reported for June 2008 - May 2009 do not exactly match those from the Analysis of Operations, primarily because some accounts have been reclassified. In particular, the way in which staff discounts are recorded has changed between the two years, so the figures for the preceding year are an approximation rather than an exact total of discounts. In the view of the Treasurer, these discrepancies have only a small effect on the comparisons between the two years.

The value for average retail markup is an estimate based on the approved markup policy, which grants the staff some leeway in setting retail prices as derived from wholesale prices. In addition, there may be errors in the way this policy was applied to specific items. Thus, the average retail markup reported here is not as accurate as its representation to the nearest 0.1% might suggest. Errors in this estimated markup are positively correlated with errors in the shrinkage estimate. That is, if the markup estimate is higher (lower) than the actual average markup, then it will appear that shrinkage is larger (smaller) than it actually is.

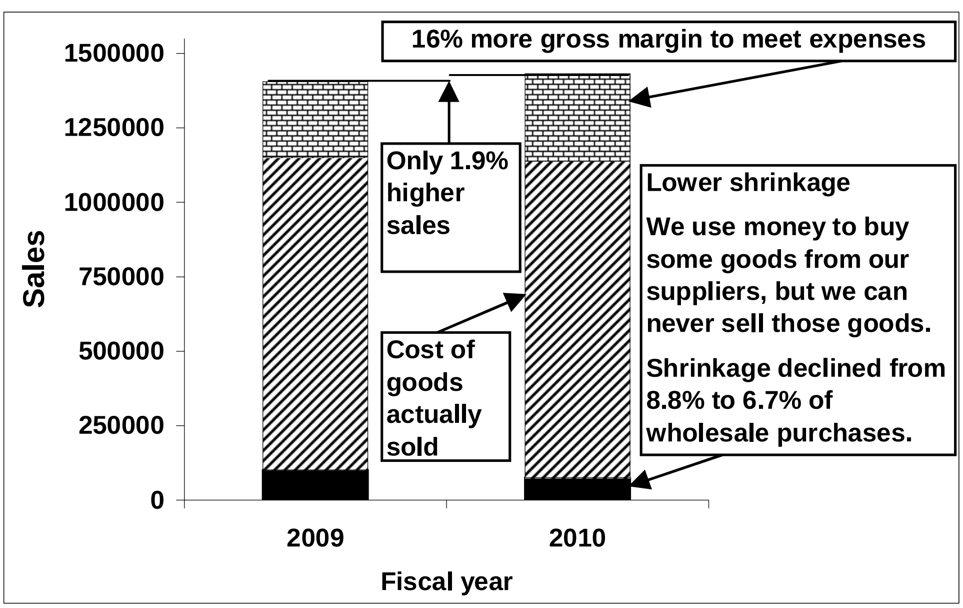
Treasurer's Report
Howard Kaplan, Treasurer

This past year, fiscal 2010, we did slightly better than breaking even. Compared to the serious losses last year, this is a major improvement. In this report, I will identify the major factors leading to the improvement, one factor that prevented the improvement from being even better, and some prospects for the next fiscal year.

Fiscal 2010 covers the months June 2009 through May 2010, as reported in detail on the statements preceding this report. The transition between fiscal years is always marked by taking a careful inventory of our goods for sale, under the supervision of the auditors. We also conduct an unsupervised inventory about halfway through each fiscal year.

The primary reality that the inventory reveals is our gross margin, or how much surplus we generated by selling at retail goods purchased at wholesale. This gross margin is affected both by our average markup, how much we charge at retail for each dollar of wholesale cost, and by our rate of shrinkage, or how much of what we bought at wholesale could not get sold at retail. The reasons for shrinkage include spillage, spoilage, trimming of produce for display, pricing and cash errors, and pilferage. In addition, the staff's authorized flexibility in setting some prices makes it difficult to exactly estimate the markup, and that make is hard to estimate shrinkage. Between inventories, but based on calculations derived from sales, purchases, and inventories, we estimate our financial progress; when we take an actual inventory, we adjust that estimate in the light of reality. If shrinkage is better than we'd been estimating, our actual inventory is higher than we'd projected from our purchases and our sales, and vice versa.

At the end of May, inventory was higher than predicted, meaning that our shrinkage was lower than we'd assumed. Last year, shrinkage was 8.8% of our wholesale purchases; this year, it had declined to 6.7%. Combined with a very modest sales increase of 1.9% and a slightly higher average markup, 36.2% over wholesale compared to the previous 34.9%, our sales generated 16% more money to pay our expenses. Although, to support the sales increase, we spent slightly more at wholesale to buy the goods we actually sold, the substantially lower shrinkage meant we spent less to buy the goods that we could never sell, leading to the 16% improvement in the gross margin. In dollar terms, that 16% represents just over $39,000.



Almost as important as the increased gross margin was a $34,000 reduction in expenses. The largest single change in expenses was staff expenses, down $47,000 from the previous year, primarily because we have fewer members on staff, even though the hourly wages of our unionized staff were higher than in the previous year. Their wages for the last few months of the year were set by the terms of the first contract that we successfully negotiated. In lieu of explicit retroactive pay going back to the date of union certification, we suggested a signing bonus, and the union agreed. Since the certification date was in fiscal 2009, but the bonus appears entirely in the fiscal 2010 records, this decision simplified the accounting. The staff costs for this year include that signing bonus.

Most other expenses were little changed from the previous year, though our consulting expenses were nearly $20,000 (an $8,500 increase over already high expenses in fiscal 2009), due to the expense of negotiating the contract with our unionized employees. Note that this figure refers to the expense of the negotiations process, not the expense of the contract settlement. It is typical for a first contract to require more intense negotiations than later contracts, so we do not anticipate high consulting costs again in the current fiscal year.

After including the building fees as non-operating income, the net loss from the operations side of Karma was $4,752. On the membership side, there was a surplus slightly larger than that, $5,300. Membership expenses were lower than in the previous year, primarily because the membership accounts no longer reimburse the operating accounts for the cost of the Member Labour Coordinator, the staff member who oversees the scheduling and training of members working in the store. The Finance Committee had recommended that this be considered an operating expense rather than a membership expense, and this recommendation was accepted. The Board has not yet decided how to allocate this savings to improving member services in other areas.

Together, the operating loss and the membership surplus resulted in a small net surplus to Karma of $548. However, on our balance sheet as of the end of May 2010 compared to May 2009, our cash position improved by considerably more than that amount, primarily for three reasons. First, our receivables, money due to us that had not yet been received, were down by over $17,000. Second, we had received an additional $5,500 in building loans. Third, despite some capital purchases, the amortized (depreciated) value of our property was about $8,000 lower than one year previously. This means that we bought about $8,000 less in new assets than the amount by which our old assets declined in value. As a result, the cash available to us was about $8,000 more than the small net surplus would otherwise imply, since the hidden amortization expense must be considered in computing the surplus. (For more information about the relationship between amortization, cash, and nearly breaking even, you can see my article in the September issue of the Chronicle.)

In summary, we ended the fiscal year in about the same state of financial health that we began it. I do not see any immediate threats to that health, though I would much rather see surpluses than mere breakevens. As one contribution to improving that health, I have been working on proposals to increase membership by reorganizing our member loan requirements and member fee collection schedule, as described elsewhere in this AGM reports book.

I will present the following motions at the appropriate times:

The General Meeting hereby receives the audited financial statements as approved by the Board, the Auditors' report on the statements, and the Treasurer's report.

The General Meeting hereby reappoints Berman, Lofchick & Lum LLP as the auditor for Karma Co-operative, Inc. for the fiscal year ending May 31, 2011.

President's report

Sarah Pretty, President

This past year has been an important one for Karma Food Cooperative, in my opinion we have begun a healthy recovery from the precarious financial situation of 2008/2009 and have taken important steps to grow the confidence and number of members we have.

In September of last year our membership had dipped to 870 members. I am happy to report that because of the very diligent work of the community outreach committee we have grown to 929 members as of last month's count. While we have not recovered to our high of 1000 members we are well on our way and the community development committee continues to gain steam and new keen members. Thank you.

I will not go far into our finances as Howard has in his report but I am much relieved, as I am sure you all are, that we have managed in this past year to stave our losses and have gone from the biggest loss in our history in 2008/2009 to more or less breaking even in 2009/2010. While there is much work to be done to pay down our debts in the coming years, we are certainly headed in the right direction, a direction that will ensure a healthy Karma.

Our greatest achievement this year was signing a collective agreement with our staff, CUPE 1281, on March 5th. I would like to thank both Greg and Paul for all of their off the clock time negotiating this agreement. Many thanks to Harry Koster and Margaret Knittl for all their work this year and years past, to our negotiator Ken Godevenos. Also to Arel Agnew, current board member, who had a lot of catching up to do this time last year, but who has represented the board and who has worked hard with Justin on the implementation of this agreement. Our staff have always been important to us as an organization and we look forward to working with CUPE 1281 to our mutual benefit.

In-between these major projects Karma has managed to achieve a few other advancements this years. We have made a huge effort to communicate more regularly with the membership and we discovered it is not easy, thank you for bearing with us. We held what we hope will become the annual February Forum to meet with you the membership and hash out exciting membership policy revisions which we vote on tonight. We held an open house for our neighbors. We streamlined our IOU policy, spread out our membership fees to four $10 payments, which seems to be popular. We have updated the membership booklet. We have almost finished the membership room, which will be a great addition to our community. Also a sound barrier was installed on this room to reduce the noise of our hvac system for our neighbors. Please excuse anything or anyone who I have missed. I know the committees have done a lot of great work, which they have outlined in their board reports. Thank you everyone. We have cleaned up a lot of loose ends this year and it is my hope that this will clear the way for our new board to achieve great things.

We have had a really terrific board this year, which has done a lot of really great work. I would like to thank the members who are leaving the board Art Jacobs has served for four years on the board as the building committee liaison. We have been so fortunate to have Art guide us through our official renovation and the many subsequent repairs including a new roof. Reg McQuaid has been our diligent Secretary these past two years. Thank you Reg for your important and often thankless work. Ben Watts filled many gaps this past year on the board, Ben has taken on many jobs that would have otherwise fallen through the cracks. And finally to Danielle Thibodeau, who served this last few months as vice president. I would also like to thank our board members who have another year left in their terms: Arel Agnew for all her work on the negotiation and supervisory committees; she has put in a tremendous number of hours. Hilary Gibson Wood, who has been our committed communications secretary as well as recently taken on membership. Hilary was the leading force behind the February Forum and the follow up policy work from that event. Angela Lee has been the committee secretary and our resident unionization specialist. And finally Howard Kaplan, who is finishing one term and is running for his next. I would hazard a guess that Howard has spent more hours than any of us this year. Thanks for getting us organized, acting as out resident policy expert and unofficial archivist, assisting with negotiations, righting our financial ship, revising our membership policies that no longer jive with provincial legislation and working tirelessly on our new cash register system. The new board will be lucky to have Howard among them.

Finally, I would like to thank Justin McNabb, our general manager, who weaves all our individual efforts into something tangible. Justin shows his dedication to Karma everyday. And to our staff, who are awesome thank you for everything you do.

I would like to close, as I often do, with my request that you really consider getting involved with one of the committees or the board at Karma. It really takes a lot to keep Karma going, and it takes even more for us to thrive. I had no idea when I joined the board and I urge you all, if you have not already, to dig in and to find out for yourselves what goes on behind the scenes.

Staff relations report

Arel Agnew, Vice President for Staff Relations

As staff relations officer I have had an eventful year. My first great excitement was the long process leading to the ratification of the collective agreement with CUPE. My feeling is that neither side experienced a sense of victory as the whole process had been time consuming and costly both on the emotional and financial side of the equation. Ken Godevnos, our hired consultant, was very helpful during the process.

The spring of 2011 will bring us to signing a new contract with our staff. Hopefully this will be a short painless process.

One result that often occurs with unionization is that the staff feel more of a sense of equity leading to a minimum of staff turnover as has been the case this year.

Currently we have a full staff complement. Our Manager is Justin McNabb and Ass't GM is Michael Armstrong.

Our Retail Associate staff consists of Frank Norquay, Greg Miller, Paul Dixon, Talia McGuire, Zoltan Vardi, and Lana Curle.

And part-timers Frank Chivers and Jerry Lee Miller.

We have completed the contract negotiations with Justin and Michael.

Job descriptions for the various staff members have been completed. It was a comprehensive. It was an extensive process as the many tasks to manage the store are challenging to describe.

In addition to the processes I have outlined Justin and I have had weekly meetings. These meetings are held to offer the General Manager support in the work place through brainstorming and problem solving. They also provide a link to educate the board concerning the details of operating Karma.

Corporate Secretary's and Communications Secretary's Report

Reg McQuaid, Corporate Secretary
Hilary Gibson-Wood, Communications Secretary

In addition to the legally mandated tasks of a corporate secretary (mainly regulatory filings), Karma's board secretary has as principal responsibility the production and maintenance of minutes for all board meetings. In this we have made considerable progress this year, thanks to major contributions by three Karma members. Howard Kaplan helped develop a consistent format for drawing up the minutes. Russell Moses has been our competent and conscientious note-taker at meetings, producing timely drafts of the proceedings, and Jason Moore has promptly posted the official versions of the minutes, together with relevant attachments, on Karma's website. We are now in the process of locating minutes for parts of 2006 and 2007, to complete our online record for this period. This task will be made easier once the members' room is completed, and we again have ready access to the hard copy of past year's minutes and other records of Karma Co-op.

We have also made positive progress towards our goal of improving communications between the board and Karma members. The Communications Secretary position is one of the new roles introduced by this year's board of directors. The responsibilities of the Communications Secretary include ensuring that important board decisions and news are communicated to the membership through all appropriate channels, making sure that the board receives and responds to members' questions, as well as liaising with the Chronicle and other Karma committees to promote and develop effective communications strategies.

One initiative introduced this year by the Communications Secretary was the 'Board News' email newsletter – a regular bulletin sent out to members, and also distributed in hard-copy at Karma for those members without email. Jason Moore has made a major contribution to the success of this initiative, by assisting in formatting the e-newsletter, distributing it to the Karma email list, trouble-shooting, and providing guidance to the Communications Secretary.

As well as improving email and print communications, the board also wanted to work on providing more opportunities for members to meet and discuss issues of interest with the board. A second communications project undertaken this year was to organize such a meeting around membership policy - the February Members Forum meeting (discussed in more detail in the Membership Policy Review section of this reports booklet). This forum was very successful and we received positive feedback from participants – we hope to organize this type of forum again in the coming year, to talk about other important topics at Karma.

General Manager’s Report
Justin McNabb, General Manager

After last year’s financial losses I made it my personal goal to turn things around at Karma Co-op. I recalled reading an article explaining that food co-ops can drift from their core purpose which is simply being a place where its members can come to buy great food. After the renovation project I wanted to change Karma Co-op back into a reliable food store where you could find the product you wanted and have it be in the same place again the following week.

My strategy has been to focus mainly on grocery store operations. I oversaw the expansion of Karma’s grocery department, the elimination of dead inventory, and a good reduction of product shrinkage. At the same time I strove to keep a high in-stock rate, and a good fulfillment of special orders and product requests. I believe that this back-to-basics approach has been instrumental in allowing Karma Co-op to regain lost ground and grow the membership back up to previous levels. It has been rewarding to achieve many small successes in these areas. And, as a result, it is likely that we would have seen a healthy surplus at the end of our fiscal year. There were, however, several large expenditures that Karma endured which were beyond my control, including: Union negotiation costs and freezer break downs.

In this upcoming year I look forward to the completion of phase two of the new cash register project. This includes completing the product database and the installation of the barcode scanners. Likely this will be a big timesaver for the staff and increase our overall accuracy in pricing and check out. The staff and I will also benefit from the sales reports that the registers will help to generate. In addition, there are many more maintenance projects to complete in the store. It is fantastic that we have been able to get so much work done on our building’s basic structural problems. I think that we can now proceed with the cosmetic improvements to the store which we have been postponing.

Karma Co-op continues to have a good reputation in the community and in the natural foods industry. It is my feeling that we have recently made great strides in reaching our co-op’s potential and I look forward to working with our staff and you, the members, to get there.

Reports from the Committees

Building Committee
Joerg Wittenbrinck, Chair

The Building Committee has been around since January 2007 with a mandate to help Karma carry out necessary repairs to the store in line with our organization's philosophy and mission statement and to plan for future rounds of renovation and maintenance.

This year the building committee started by listing work and repairs that were needed to maintain the building and property. The jobs were listed in a priority order in order to complete the most immediate ones first and schedule others as time and resources allowed.

The members room, although still not finished, saw much improvement. We insulated the walls and installed new electrical, walls and ceiling, along with heat and ventilation. What remains to be completed are three large pieces of 'furniture': a cabinet around the electrical panels boxes (partially built), the west wall, which includes a long built-in bench, and finally a large shelving unit along the south wall. We know that the members room is important to Karma and very dear to many members, and we hope to complete it in the near future. If you would like to help, please send us an email.

During the month of August a roof top compressor sound screen was constructed on the roof enclosing the refrigeration and air conditioning compressors in order to reduce compressor unit noise. This we did at the request of our neighbours.

Over the summer, James Wilkinson, a professional engineer and committee member, prepared repair specifications for the building stucco exterior south and east walls and replacement of damaged bricks. Basically, now that we have eliminated the main source of moisture on the inside (the old walk-in fridge, replaced in 2008) and repaired the walls there, we need to do the same on the outside and let the building breathe properly. We have hired a professional company for this job through a competitive bidding process. The budget for this repair has been approved by the board, and work should begin in September and is scheduled for completion in October.

Other projects we hope to get out of the way in between time of writing and the AGM is the installation of two new windows in the east wall (toward the alleyway, currently boarded up) and a number of small skylights in the main part of the store.

A new area of responsibility for the committee this year is the participation as part of a workplace health and safety team to assist with any items which pertain to health and safety in the store and on the property.

The committee is open to new member participation. If you have skills that are useful in assisting with our mandate, please contact the committee chair. If you can help by providing labour on scheduled projects please let us know. There are always small and large projects that need attention.

The AGM has a full agenda and there will be only limited time to discuss committee reports. Should you have any questions or items to be discussed about this report, please contact Joerg at building@karmacoop.org or Arthur, ajacobs@arthurrefrigeration.com

Members of the committee are Joerg Wittenbrinck, Chair, Arthur Jacobs, Board liaison, Doug Rylett, Cathy Taffler, and James Wilkinson.

Chronicle Committee
Jennifer Ralston

The Chronicle Committee has gone through almost a complete turnover of committee members during the past year. Long-time Chronicle Committee members have resigned, leaving a few remaining members with multiple roles to fill. Fortunately, a few new Karma members have come forward with fresh energy and enthusiasm. In addition to turnover, we have had to come to terms with a chronic lack of submissions and content. As we made our way through this time of transition, having to bring new members up to speed and being under-resourced in the skill sets that propel our committee (experienced editorial and design resources), we had to come to terms with the fact that we didn't have the resources to continue to publish on the same schedule, six times a year, as we did in the past.

After having a few new members come and go, and leaning heavily on the resources of a couple of stalwart committee members, we now have a small but dedicated group working on The Chronicle. We have re-visioned and revised our approach to publishing The Chronicle based on our current resources and the realization that we will have to actively recruit submissions from the board, staff, committee chairs and membership. In December 2009, we published a special edition of The Chronicle to explain our situation to the membership and our new plan to publish on a quarterly, seasonal basis.

We have been somewhat successful in increasing the number of reports and submissions included in The Chronicle and have published, in addition to the special bulletin, three issues since our revamp. We have also sent some Chronicle Committee members 'on assignment'; one to the special membership meeting called by the board in the spring and one to fulfill a request by the board to report on an issue they would like to share with the membership (forthcoming in our next issue).

Printing costs are the only committee budget item we have, and they have been minimized by our efforts to increase email subscriptions while decreasing our print run. We recognize that not all members have online access and our goal is to make The Chronicle accessible to all. Our printer uses environmentally friendly, union-made paper.

Our goal is to achieve regular and consistent communication with and submissions from Karma committees, board, staff and membership and to expand the number of committee members with relevant experience on our committee so that we are not relying on the goodwill of a few to carry our publishing work.

Members who have served on the committee over the past year: Shawn Caza, Derek Chadbourne, Phillip Cox (for 2 months), Karen Fliess, Andrea Fonseca, Hilary Hall, Jennifer Ralston

Chronicle Committee mandate and goals:

The Chronicle Committee exists to ensure the publication of an internal newsletter. The committee’s duties shall consist of the actual production of the newsletter, the long-term planning and policy making that guides the newsletter content and committee structure, and any other related special projects.

Our primary goal is to produce a high-quality publication that helps Karma’s members communicate with each other, provides a forum for discussing important issues facing the co-op, and prints important news about food and agriculture that would be of interest to Karma members.

Community Development Committee
Natalie Brown, Chair

The Community Development Committee has had a good year. Generally, we have focused on building up our committee membership and our relationships with local food groups and farmers markets. We are well placed to build on these relationships going into 2011. In 2009-2010, we organized a Karma presence at several local food events, including the Eat Local! Festival at U of T, and partnered with the Hot Yam vegan lunch spot to provide them with some great ingredients from Karma. We held a Karma Open House on June 12, 2010. We had tons of great food samples from our suppliers and lots of interest in Karma from the attendees – some of them even signed up on the spot! For the next year, we are focused on building up Karma's web presence using social media and collaborating with the web committee to deepen content on the website, including a revamp of the 'How to Join' page of the site. We will be attending local farmers markets to promote Karma, organizing in-store food tastings for Karma shoppers, and possibly putting together a Karma cookbook!

Current Committee members: Natalie Brown, Michael Chartrand, Donald Curriie, David MacCaughna, Lara MacInnis, Caley Moore, Niki Popper, Boni Stafford

Past Committee Members: Rachel Birenbaum, Laura Coramai, James Davis, Sarah Pretty, Kevin Taylor, Michelle Webb

Finance Committee
Don Altman, Chair

The Committee consisting of Lisa Anderson, John Biggs, Quincin Chan, Howard Kaplan (treasurer), and myself met almost every month during the year staffed, ably by Denise Stapleton and Justin McNabb. In the course of the year, the Committee reviewed and discussed monthly the financial results, the treasurer's report, the bookkeeper's report and the general manager's report. As well, we discussed and reviewed financial policies; financial control; recommended the capital, operating and membership budgets to the board; and reviewed the auditor's report and the audited financial statements.

Over the course of a year the Committee is involved in a wide range of policy issues which have financial implications. This past year was no exception. The size of this report does not allow me to go into much detail but here is a partial list of issues on which the Committee provided assistance either to the staff or the board or both during this year.

The Committee monitored the progress of the installation of the new cash registers. It was involved in a number of policy discussions including, but not limited to, trial shopping, cash credit to shoppers, and shopping credits for additional work.

The Committee monitored the financial consequences of the union negotiations. The Committee researched the impact of HST on store prices and member fees.

In the up-coming year, besides the routine elements of the work – monthly report monitoring - the Committee will be reviewing a sales analysis, which is currently in progress, and monitoring the move toward product scanning, among other issues. There are always issues that arise in the course of the year that require Finance Committee comments, but at this point I cannot tell what they might be.

Finally, we would like to acknowledge the long service of John Biggs on the Committee. John decided to step down from the Committee during the summer. Thanks John.

Orientation Committee
Sondra vanderVaart, Chair

Members: The members of the Orientation Committee during the 2010 year were: Sandra Gregson, Susan Stewart (who filled in for Sandra G), Adam Seelig, Paul DeCampo, Brandy Humes, Doug Parry and Sondra vanderVaart

Mandate: The Orientation Committee is responsible for introducing all new members to Karma Coop. Our mandate is to respond to people's interest in Karma, provide an orientation as to how Karma functions, provide basic information about Karma's policies and welcome new members to Karma Coop.

Activities: We speak to all people who are interested in joining Karma Coop. In addition to providing information and answering questions over the phone, we schedule 4-5 in-person orientation sessions each month. In the 2009/10 fiscal year we introduced over 180 people to Karma Coop. This is in line with previous years (in 2008/09 -140 people and in 2007/08 – 150 people).

Web Committee
Jason Moore

This year the web committee has updated the email address list for membership mailings, sent out mass emails on behalf of the board, and consistently updated the Karma Co-Op website. We make sure the web infrastructure for Karma works.

The Web Committee designs and develops Karma's web site, communicating with the board, other committees, staff, and Karma members to determine the content.

Our mandate is to build and maintain a web site to convey information about Karma Co-op values, policies, events, activities, etc. for members and anyone wanting to know about the Co-op. We know HTML coding, can do some writing, set and apply editorial standards for authors and web guidelines for updaters. Our publishing guidelines are based on the established guidelines for The Chronicle newsletter.

We also create and maintain the email addresses and lists within our domain (karmacoop.org).

Members: Jason Moore

Past Members: Neil Benvenuti

The Food Issues Committee did not submit a report for the AGM.

By-laws amendment proposal
Karma Co-operative Annual General Meeting, October 2010
Prepared by Howard Kaplan on behalf of the Board of Directors

This proposal is identical to the proposal distributed in the call to the meeting

These are the three cover pages to a package of by-laws amendments approved by the board of directors on September 13, 2010, and submitted to the annual general meeting for ratification. To facilitate discussion, the changes are grouped into five separate amendments.

The Board is proposing these amendments for these reasons:

- Some of our by-laws include minor typographic or textual errors, and they include inconsistencies in the way words are capitalized.
- Some of our by-laws make references to obsolete procedures or institutions, such as the corporate seal or the Province of Ontario Savings Office.
- Some of our by-laws are phrased in ways that are difficult to read, and the board wants to clarify the text without changing its meaning.
- Some of our by-laws are more-or-less consistent with our current practice, but the board wants to ensure that current practice is explicitly recognized.
- There are new practices which the board recommends adopting, possibly not allowed by our current by-laws, but which the board believes would benefit Karma. Among these are changes allowed by recent revisions to the Co-operative Corporations Act or inspired by the provisions of the Electronic Commerce Act.

Details of the first four amendments are shown on these three pages: the first three amendments are undoubtedly substantive changes, and the fourth might be viewed by some members as being a substantive change. Details of the fifith amendment, which consists of many technical changes to wording that do not alter the co-operative's current practices, are shown only in the full 14-page package.

In the presentation of all of the proposed amendments, text to be added is shown in boldface, **like this**, while text to be deleted is shown in a strikethrough font, ~~like this~~. In the new by-laws, as amended, the boldface attribute will be removed, and the entire text will appear in an ordinary typeface. There are also changes to the capitalization of words and a consistent adoption of the more familiar term "annual general meeting" instead of "annual meeting"; neither of these is specifically highlighted as if it is an amendment.

The four proposed substantive changes are shown both here and in the full 14-page proposal, each surrounded by a dashed line to indicate that it is the subject of a separate amendment.

The board expects most members to read these three pages but not the remaining pages. Therefore, the board is distributing these three pages to all members as part of the official call for the meeting. Any member wishing to read the full document, titled "By-laws amendment proposal, Karma Co-operative Annual General Meeting, October 2010", can find it on the Karma web site (look for a link on the AGM page) or in hardcopy format at the store.

Note concerning Amendment 1: This amendment allows the general membership more flexibility to decide the terms of the member loan or to delegate such decisions to the board; it does not change the current loan policy. If this amendment passes, then the members will be asked to consider specific changes under a separate, later agenda item.

Amendment 1: The General Meeting approves amending the first paragraph of Article II, section 4**,** of the by-laws, to read as follows:

Member Loans

4. The members of the co-operative shall from time to time, by resolution adopted at a general meeting, set the **conditions for any loans from members** ~~amount and the payment terms of an interest-free loan~~ which **provide the owners' capital investment in the co-operative, the repayment of such loans ranking behind all other obligations of the co-operative.** ~~all new and continuing members are required to lend to the co-operative.~~ **These conditions shall include whether the loans are mandatory or voluntary, the value of the loans, the time limit for payment of the loans if mandatory, and any interest or other compensation to be paid to the lenders. The members may also delegate to the board of directors the setting of any or all of these conditions.** Upon termination of membership, ~~this~~ **any such** loan is returnable in accordance with the provisions of the Co-operative Corporations Act, and shall not be abrogated except to satisfy indebtedness to the Co-operative, or to satisfy the provisions of the Co-operative Corporations Act of Ontario that member loans may not be returned in these two cases:

   [The remainder of the section, describing the two cases, is unchanged.]

Note concerning Amendment 2: This was requested by the members at the last two AGMs.

Amendment 2: The General Meeting approves amending Article IV, section 3(b)**,** of the by-laws, to read as follows:

Limitations on Duration of Service as Director

(b) Any person who has served as a director for any part of each of ~~four~~ **six** consecutive board service years shall not be eligible to serve as a director during any part of the ~~fifth~~ **seventh** consecutive year. A "board service year" is the time between successive ~~commencements of term~~**annual general meetings**. No member may be elected to serve as a director unless he or she is eligible to complete the term for which he or she is elected.

Notes concerning Amendment 3: The meaning of "granting leave" in Article IV, section 6c, is not currently specified:

6. The office of a director shall be vacated: …

(c) if he or she is absent without leave of the directors from three consecutive regular meetings of the board

Some current directors have expressed concern that if "absent without leave" is interpreted strictly, as the new Section 10 proposes, then the board may have difficulty meeting its quorum requirements if it is forced to dismiss a director. The same quorum problem, however, arises when a director resigns voluntarily. The amendment to Section 13 relaxes the quorum requirement somewhat when there are any board vacancies; this is consistent with the Co-operative Corporations Act, which allows the by-laws to specify a quorum of less than a majority, but not less than 40%, of the director positions available. The Act allows meeting by telephone if the by-laws so specify; it is not clear whether the Act allows that if the by-laws do not so specify, so to be safe we are specifying it in section 11.

Amendment 3: The General Meeting approves inserting Article IV, sections 10, 11, and 12, modifying and renumbering section 13**,** of the by-laws, to read as follows:

Leave to be Absent from Directors' Meetings

10. The board of directors may, by formal resolution, grant leave to any director to be or to have been absent from a regularly scheduled meeting of the board. Such leave may be granted only for the purpose of conducting other business on behalf of the co-operative or as compensation for the time spent conducting such other business. The director whose absence is the subject of the resolution may participate in the discussion and vote on the resolution.

Participation in a Meeting by Telecommunications

11. Where all the directors participating in a meeting of the board of directors have consented, any director may participate in the meeting by means of conference, telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and a director so participating in a meeting shall be deemed to be attending that meeting.

Conflict of Interest

12. Any director who has a financial interest in a matter under consideration by the board, beyond the interest which all members share in that matter, must declare that interest to the board, not participate in the discussion or voting on the matter, and not be counted in determining whether a quorum is present to decide the matter.

Quorum

13. ~~A majority of the directors~~ **When there are ten directors holding office, six directors** shall constitute a quorum at any meeting of the board of directors**. When there are fewer than ten directors holding office, five directors shall constitute a quorum at any meeting of the board of directors.**

Note concerning Amendment 4: This is consistent with our current practice but has not previously been formally authorized.

Amendment 4: The General Meeting approves adding ~~inserting~~ Article XIV, section 4, of the by-laws, to read as follows:

4. Whenever these by-laws require a document to be submitted or distributed in writing, other than a document which requires the handwritten signature of the issuer to authenticate it, the document may be conveyed electronically in accordance with the provisions of the Ontario Electronic Commerce Act, provided that both the issuer and the recipient agree to its electronic conveyance.

Note concerning Amendment 5: The board would like some members to read the entire 14-page document and assure the meeting that the board's description of the remaining changes as technical, rather than substantive, is accurate.

Amendment 5: The General Meeting approves making all of the remaining technical changes to the by-laws indicated in the document "By-laws amendment proposal, Karma Co-operative Annual General Meeting, October 2010".

Membership structures review: progress report
Member loan change proposal

Hilary Gibson-Wood, Membership Secretary
Howard Kaplan, Treasurer

Why has Karma undertaken a review of membership policy?
How could changes to our membership policy help Karma?

To be financially sustainable, Karma needs to make more money through selling more goods. Same-month sales are about 12% below what they were three years ago (our last reasonably profitable year), for two reasons: we have fewer members, and the average member does not buy as much as formerly. We have fewer staff, but that has not lowered expenses enough to make up for this drop in sales, nor will the labour cost savings when we stop price-labeling goods and start scanning their barcodes at the cash. Also, member labour is not “free” – and having more of it would not contribute enough to make up for lower sales.

Even a small sales increase would have a dramatic effect on our finances, because our expenses are so close to our net income. The 2010-2011 operating budget, approved by the Board in June 2010, included the following ‘what-if’ calculation for the next fiscal year: If we assume that we can raise sales by at least 5% before we start needing to increase staff hours, then such an increase in sales will change the projection from a loss of $7,600 to a surplus of $6,800. So, at a bare minimum, we should be trying to raise sales by 5% without raising operating expenses.

Three potential ways to increase our profitability are to increase membership size, to increase income per member, and to get income from non-members. There is very little more we can do to increase profitability by reducing expenses, nor is it practical to increases the prices for which we sell goods.

Wanting to sell more goods isn’t our only reason for wanting to attract more members. We believe that we are offering a valuable community service by operating Karma, and we want to remove any unnecessary barriers that that might prevent people from taking advantage of that service.

Membership growth depends on how well we attract new members to learn about Karma, how attractive our orientation process and fee structures make it to join Karma, and how well the experience of being a member encourages remaining a member. It is crucial that Karma’s membership policy is designed to attract new members, to keep these new members, and to satisfy our current members.

Given the importance of our membership policy, the Board undertook a formal review and began implementing some of the review’s suggestions. Other proposed changes are now being brought back to the members for further consultation.

How did we review membership policy?
What decisions have been made so far?

In February 2010, we held a Forum on membership policy, where Karma’s General Manager, Board, staff, committee members, and members with no special roles came together to consider possible changes to our membership structure. The Forum primarily addressed five ideas for changing our membership structure, to review them critically and see which ones the people attending thought were most worthy of pursuing, while also gathering other ideas not on the original agenda. The full report is available on our web site, at http://www.karmacoop.org/documents/MembershipReview2010FinalReport.pdf).

Comments made at the Forum expressed two key themes:

1. We need to address barriers that exist for new members who want to join Karma, as well as the barriers to staying a member of Karma.

The barriers were seen as primarily financial, as the costs of the member loan and the fees deterred people who could not afford to invest in their future access to products. These costs also deterred multiple members from the same household. Suggested solutions included a wider range of membership categories, for example, special categories for students, couples, and families, with appropriately adjusted fee and loan requirements.

2. While we need to think about making Karma a welcoming place for people who are not currently members, the idea of membership is important.

Participants felt it was more important for us to facilitate membership than to allow non-member shopping at Karma. If it is easy to become and remain a member, everyone who wants to shop at Karma will be able to. The easy way people can join MEC, Mountain Equipment Co-op, was cited as an example we might follow. The fact that our Co-op is for members only is integral to our identity. Furthermore, paying membership fees is a integral part of what it means to be a member – the idea of eliminating our membership fees was not something that Forum participants wanted to see happen. Having some kind of a membership fee (but not necessarily $18 every half year) was seen as important.

In the spring, the Board implemented one suggestion discussed at the Forum, offering $10/hour shopping credits (outside of the regular member labour system) for members performing some hard-to-fill jobs. While this has been useful in alleviating some operational problems, and while it might give some low-income people an additional incentive to become members, it does not address the main membership barriers identified at the Forum.

This August, the Board approved in principle giving each member a choice of a $10 quarterly fee or a $36 annual fee, to be implemented later this year when we can get our record-keeping systems adjusted. In September, the Board modified that proposal slightly, connecting it to the proposal to change the member loan, both described below. The Board felt that having a smaller fee and no loan payable on joining, and no requirement to ever provide a large member loan, reduces the prime financial barrier to membership.

To fully explain this proposal, we must step back and review why Karma has a member loan.

Why do start-up co-ops require member loans?
Are they still important for stable co-ops?

Currently, for an individual to join Karma, the up-front cost is $88. That covers a $70 loan plus $18 for whichever version of the annual fee (member services or building maintenance) is currently being collected. In some months, the fee can be pro-rated, and it is possible to pay the loan over time rather than all at once. Nonetheless, prospective members correctly perceive that we are asking them for $88 up front, with the prospect of another $18 within six months. Many individuals, especially those who are initially attracted to Karma in the hope of saving money, find this prohibitive.

Some other businesses, even other co-ops, do not operate this way. For example, MEC requires a nominal initial investment share of $5 and no further investment or annual fee. All other expenses, both the expenses of running a store and those of running a membership organization, are covered through the markup on goods sold. (Some other subtleties of the MEC model won’t be discussed here.) One might even speculate that the $5 member loan is of little financial consequence to MEC but is primarily a mechanism for maintaining its structure as a co-operative.

Other food co-ops in Canada require much larger member loans than Karma does, but paid over a long time rather than all upon joining. For example, the London Co-op Store requires a $400 member loan, accumulated in $10 quarterly installments over ten years. The Fredericton Direct Charge Co-op requires a $30 loan on joining and a $2 weekly investment until the loan reaches $1000. Similarly, Karma itself has built up its $35,000 member loan at the ONFC, the co-operatively owned wholesaler of which Karma is an important member. In exchange for providing this loan, Karma receives a discount on its purchases from the ONFC.

Karma's member loan requirement might once have seemed relatively high. The current loan, $70, was established some time in the 1990s, when $70 was worth much more than it is now. It's useful to step back a bit and ask why co-ops need large loans from their members.

New retail co-ops need to purchase goods to sell and equipment to handle those goods before they can start business. They also need to run at a loss for a short time, paying expenses such as staff and rent, until their volume of business more than meets their expenses. Sometimes co-ops can meet these startup costs from grants or from "angel" investors, but more typically they need to raise the money from their prospective members. (Start-up co-ops rarely have the security required to borrow from credit unions or banks.) Typically, each member's required loan is at least equal to the average amount of inventory the co-op must carry to serve each member, and that's often how the loan is justified to prospective members.

For a successful, stable co-op, the capitalization situation is different. The costs of increasing inventory to serve a growing membership can be fairly small compared to the surplus accumulated over the years. If that surplus is in the form of cash, it can be used to purchase increased inventory directly, while real estate can secure a line of credit to facilitate buying more stock. Also, suppliers are comfortable extending short-term credit to a successful co-op, again reducing the problem of purchasing inventory. For purchasing store improvements, the cash demands are larger, but again a combination of cash and obtainable credit is available.

One factor in a lender's decision to extend credit is the members' equity in their co-op, that is, how much members have invested in it and could potentially receive back from it. However, that's not the only factor. We lost about $50,000 in the fiscal year that ended in May, 2009, and the value of member equity on our balance sheet declined by over $25,000. However, because our overall assets (especially the value of the renovated building) far exceeded our use of the line of credit, and because our cash flow of weekly deposits into the credit union remained high (though not as high as before the sales decline), the credit union expressed satisfaction with our situation and continued our line of credit.

Of course, Karma would like to improve its financial performance, pay off its loans from the credit union and from members supplying building loans, and restore the value of its members' equity. To do that, it needs to increase sales, and the members now have an opportunity to consider whether it is practical to increase membership without increasing, and perhaps even by decreasing, member equity in the co-op.

Are mandatory member loans a reasonable requirement?
Could we simply let members put loan payments on their credit cards?

In theory, people need to pay substantial up-front costs in some areas of their lives but not in others. People pre-pay at least some of their housing costs, either through down payments or through last-month security deposits. Similarly, people expect to pay at least some of the costs of relatively sophisticated cellphones on delivery, even when paying the remainder over the course of multi-year contracts. However, with so many sellers accepting credit cards, very few consumer goods actually require substantial advance payment directly from the consumer, especially payment that exceeds the cost of the goods delivered at the time.

In the consumer's current world, Karma is an anomaly. It asks for advance payment for intangible benefits, ownership and democratic control, and it does not allow them to be bought with a credit card. Even though members can theoretically pay off their loans in two installments instead of one, the time limit isn't clearly stated, and even a half a loan may seem inconsistent with what other sources of food require. Staff have been known to accept a new member without collecting any loan, considering the value to Karma of an actively shopping member to be greater than the value of the loan. From a strictly financial standpoint, the staff are right.

If collecting a large start-up loan is a problem, then the following are possible solutions:

- Require a full member loan on joining, but allow it to be paid by a credit card
- Collect the member loan in much smaller installments
- Create an incentive to provide a loan, but do not make it a condition of membership

Karma has occasionally considered accepting credit cards, rather than extending credit to members in the form of IOUs. However, credit cards require substantial merchant fees, and there are rules against charging extra for the use of credit cards, though the rules don't prevent offering discounts for not using credit cards. It does not seem appropriate to raise our prices to cover credit card transactions, just to lower them again via a discount for not using such cards. Perhaps more importantly, some people with limited incomes simply avoid the temptation of buying on credit, so accepting credit cards would not reduce barriers for those people.

Allowing the loan to be paid over many installments is not impractical. Other co-operatives do that, and we could incorporate such a provision into proposed upgrades to our member records software. If the Karma membership wishes to retain a mandatory member loan, then increasing the time over which it can be paid would reduce one membership barrier. However, there are two potential problems that need to be considered: enforcement and equity.

The problem of enforcement is one that applies to both loans and fees. The basic argument is this: why should we deny a member the right to shop simply for being behind schedule in paying for something other than the goods in the shopping cart, when the surplus we generate by selling that cartful of goods is larger than the extra payment we're trying to collect? Furthermore, with so many of the cashiers being members rather than staff, is asking them to enforce fee-payment or loan-payment rules practical? If the newest members are the most fragile, the ones most likely to leave Karma because something makes them unhappy, then increasing the number of occasions on which special assessments are collected may be counterproductive, even if those assessments are small. There is no good evidence about whether that would be more or less counterproductive than a large entrance loan that prevents people from becoming members in the first place.

The other problem is that of equity, in a somewhat different sense than member equity on the balance sheet. If some members have fully contributed their member loans, on which Karma pays no interest, while other members are shopping loan-free (which means that Karma is using its line of credit to buy inventory to serve them), then the former members are subsidizing the latter. The dollar value of the subsidy is small, about $2 for a member who takes a year to fully pay the loan, but it can be argued that members should not be subsidizing other members. (There are other subsidy inequities in Karma's financial arrangements that won't be discussed here.) One way to avoid this inequity is simply to charge members $2 to pay off their fees over time, rather than all at once. For example, we could collect a $70 loan as 12 payments of $6 each, with the extra $2 simply being the carrying charge.

What is the Board's current proposal?
What are its advantages and disadvantages?

The Board is instead proposing the third solution discussed above, an incentive but not a requirement to be a lender. Under this proposal, each member simply decides whether to be a lender or not, and Karma charges two slightly different membership fees to restore financial equity between the groups of members. If the value of the standard loan and the difference in fees are chosen appropriately, that will encourage an appropriate proportion of members to be lenders, and our balance-sheet equity will remain about what it is now. A moderate drop in that equity would not be harmful, but a larger drop might, so it is important to choose an appropriate loan value and incentive.

Under the Board's proposal, there would be an optional membership loan of $100. Non-lenders would pay a quarterly membership fee of $10, or $40 per year, slightly higher than the current $36 annual fee. Lenders would be allowed to pay the same fee if they wish to pay quarterly, but they would also have the option of paying a $35 fee to cover a full year. At current interest rates, that $5 discount is slightly more than members could get by leaving the $100 in a bank account, and members who have the resources to lend $100 are likely to also have the resources to pay their fees in annual installments.

Under this proposal, both new and existing members will have more choices for how they want to finance being a member of Karma. It will be financially easier for people to join Karma. Instead of all new members having to pay $70+$18, someone could join Karma by paying $10 – the first quarter's membership fee. The loan will be optional – those people who do choose to pay the loan will pay a larger one than the current $70, but they will also receive a discount on their membership fees. Members who join without paying a loan will be welcome to pay one later and start receiving a fee discount at that time.

This change should make membership more accessible and more appealing to different kinds of households, and especially those whom the General Manager and the Community Development and Orientation Committees report as discouraged from joining Karma under our current membership system, and whom we are not doing a good job of retaining as members. Specifically, students, who are often short of ready cash, can join easily and offer to work extra shifts to reduce their food costs. Also, the large initial loan, which discourages some households from having more than one member, will no longer be a barrier. The Orientation Committee has reported that couples, for example, are frequently deterred from becoming members when they realize the total cost for both people to join and therefore be able to shop at Karma.

How has the Board studied this proposal and its alternatives?
What questions have been raised about this proposal?

During the year, the Board has heard and discussed several proposals for changes to the membership system. Many of those proposals have involved identifying individuals in special circumstances, such as being students or members of community groups, and offering those individuals special deals on membership. The Board has not been entirely enthusiastic about these proposals, which grant special privileges on the basis of a status that is not necessarily relevant to Karma, and which would be difficult to implement and monitor effectively in practice (for example, having to check student cards). Unlike those proposals, the current proposal doesn't require a prospective member to prove any particular status; any member is free to pay a loan or pay a higher fee in lieu of paying a loan, without explaining why. That simplicity is an important reason why the Board supports the current proposal. The Board has not compared it to other possible modifications to the loan requirement.

In preliminary discussions, we (Hilary and Howard) have identified or heard a number of potential concerns and questions about this proposal, which we address here. We begin with five questions that we think many members will ask, and then we warn you that we're getting into some technical questions that few members will ask. You can still be a good Karma member, even if you decide to skip over any technical questions that are of no interest to you.

What is the primary goal of this proposal? The primary goal is to make joining Karma easier by eliminating the requirement for a large initial investment. The resulting increased sales from the increased membership will generate a larger surplus for the co-operative, making it easier to pay down the line of credit and complete paying for our recent renovations.

Why was the specific value of $100 proposed? The value of $100 is the Treasurer's educated guess about how much larger the majority of existing lenders would be willing to make their loans, in exchange for an incentive to do so. The number $100 has not been derived by any magic formula. Currently, 100% of our members pay a $70 member loan. If, instead, 70% of our members (or anything reasonably near that figure) pay a $100 member loan, our member equity in the co-op stays nearly the same, and $100 is a reasonable loan requirement to justify a $5 fee discount. If enough members respond to the dotmocracy poster at Karma, that will give us a rough estimate whether the increased loan, tied to a fee discount, is attractive to around 70% of the current membership. Of course, this does not guarantee that either people who didn't respond to the poster or future members will be as willing to provide a loan as current respondents are. Therefore, the revised loan proposal includes an opportunity for the Board to cancel the change if the response proportions suggest that proceeding with the change is not in Karma's best interests.

What will ensure equity (in the sense of fairness) between lenders and non-lenders? Karma has a line of credit with sufficient room to finance a moderate drop in the total member equity (in the financial sense). If the annual fee is increased slightly for members who do not provide loans, as is proposed, the increased fee will slightly more than pay our interest costs to borrow that money from the credit union instead. Thus, both lenders and non-lenders will be paying their fair share of the costs of Karma, and there should be no reason for either group to think the other is getting an unfair financial advantage. In terms of member political rights, such as voting rights, all members will continue to have equal rights, whether or not they are lenders. However, because member loans currently provide some protection against bad debts; Karma might not be able to extend the same credit (such as IOUs) to member non-lenders as to member lenders. This can be seen as reasonable: people who do not lend to Karma cannot borrow from Karma.

What happens to the loans of current members? Clearly, if new members can join without paying loans, then existing members must be allowed to withdraw their loans, on an appropriate schedule. The proposed loan changes include a clause delegating to the Board the decisions about how to make the transition from the current to the new system.

What are we voting on at the AGM?

In order to implement such the proposal to change the loans, an amendment would first need to be made to the relevant section of the by-laws. For details of that change, see Amendment 1 at the top of the second page of the by-laws amendment proposal, earlier in this reports book.

If this by-laws amendment is accepted, that does not change the terms of the member loan; it simply gives the AGM more flexibility in changing those terms. Based on that increased flexibility, we will present the following motion later in the meeting for the AGM to approve, amend, or reject. Please note that this motion has been modified from the version distributed in the original call to the meeting; in particular, clauses 7 and 8 are entirely new:

The General Meeting hereby approves the following conditions for member loans, as authorized by Article II, section 4, of the by-laws:

1. The standard member loan is $100, an increase of $30 from the previous $70.
2. The member loan is voluntary and is not a required condition of membership; however, all members are invited to provide such loans.
3. All members of the same household must either provide or not provide member loans, and no loans in values other than $100 per member will be accepted.
4. For administrative convenience, one member of the household will be designated the “loan holder”, and any repayment of the loan upon resignation will be made to that member on behalf of the household.
5. To encourage members to provide member loans, any member providing such a loan will receive a discount on the membership fee, in lieu of interest on that loan, whenever the full year’s membership fee is paid at once.
6. The board is hereby delegated to set the value of the discount on fees and to establish reasonable rules to allow each household to make the transition from the current $70 per member loan to the new loan values.
7. The board is hereby instructed to collect written applications from each member household, in which the household elects to increase or withdraw its member loan; to assess whether the proportion of households making each choice would result in a net benefit to the co-operative were the new loan conditions to be put into effect; and, should the board decide that the new loan conditions would result in such a benefit, to declare the conditions to be in effect and to honour all such applications.
8. If the board decides, on the basis of the assessment in clause 7, that the co-operative should not proceed with the new loan conditions, then the conditions remain unchanged from what they were before this motion was adopted.

This concludes the questions that we expect to be of most interest to members; the remaining questions are of a more technical nature.

What are the details of the new quarterly fee proposal? For those members who are interested in how the new fee schedule is likely to work, here are the highlights of what has been proposed. Setting this schedule (or some other schedule) will be the new Board’s responsibility, and it is being presented here for information, not for AGM approval.

1. The membership fee is $10 per quarter, collected four times per year from anyone paying the fee quarterly. The quarters and the year can begin on any month; they need not begin in June, September, December, and March.
2. For anyone joining after the 10th of a month, the remainder of that month is “free”; that is, the fee-paid quarter or year is measured from the next month.
3. Any household which provides $100 membership loans from all its members is eligible for a membership fee of $35 per member per year, provided that the entire year is paid at the time of any quarterly fee collection.
4. For anyone resigning before the last month for which the membership fee has been paid, $2.50 per month will be refunded for any already-paid month which follows the month of resignation (not the month of last shopping, if they differ).
5. All members of a household must pay their fees simultaneously, and the period covered by the fees must be the same.
6. There is no pro-rating or reduction of fees for months when a member does not shop, even if the member has taken a leave of absence from working.
7. No member will be allowed to shop unless the fees are fully paid to date.

8. There is no specific provision to pay half of the annual fee by working an extra shift, as there was previously. However, any member may take advantage of the advertised work shifts available for $10/hour shopping credits, which will provide an alternate method for members to perform extra work instead of providing extra cash at fee-collection time.

Is this member loan proposal legal? The Co-operative Corporations Act has very detailed conditions concerning member shares but very few conditions concerning member loans. Presumably, the former is to ensure that investors in profit-making co-operatives can realize their fair shares of any increase in value, an issue that does not arise when making loans. Here is all the Act says about required loans; another section deals with non-required loans (like our building loans):

> The capital of co-operatives without share capital may be in the form of loans from members, called member loans, and such loans may be in such amounts, payable on demand or at such times and without interest or at interest not exceeding the prescribed maximum annual percentage or, if authorized by by-law of the co-operative, at such a lesser rate as the board of directors may by resolution determine.

If joining is easier, what happens to trial shopping? The primary reason for trial shopping is to let members experience Karma before making a major financial commitment. However, there is evidence that the trial shopping system is irritating to some prospective members and is abused by some people with no intention of becoming members. Without a major financial commitment being required, the Board may decide to eliminate trial shopping and require membership for all shoppers. This would be similar to the MEC model, where only members may shop, but becoming a member is inexpensive and can be done at the first shop. Under this proposal, someone new could come to Karma to shop, becoming a member on that shop for as little as $10. Guests with whom we have a business relationship, such as suppliers or construction workers, would still be allowed to do a little incidental shopping at Karma.

How many lenders need to agree to raise their loans to $100? We have about 900 active member-lenders. At the meeting, we will report our best estimate of the number of lenders who, if the loan were increased, would pay another $30 (and thereby obtain the annual fee discount). That estimate will be based on the responses to the dotmocracy poster, which we will bring to the meeting to get any last-minute responses. If 70% of the totality of lenders (including the lenders who did not respond at all) agree to the increase, then the proposal will be equity-neutral, in the sense that withdrawals of their loans by the other 30% would leave us in the same equity situation. Below that breakeven point, each 1% of lenders, or 9 members, opting for loan withdrawal instead of loan increase means a $630 loss of equity, with a corresponding increase in their annual fees to allow Karma to slightly more than pay the interest on borrowing that $630 under our line of credit. To cite just one projection from that statistic, if only 50% of members agree to raise their loans to $100, then our equity will decline by $12,600, and we will increase our borrowing by the same amount, with the fee increase to $40 for non-lenders covering the cost of that borrowing. This figure, $12,600, is about one third of the improvement in our liabilities (exclusive of building loans) over the past fiscal year, or about 10% of our current liabilities. However, the increased sales will eventually allow us to repay any increased borrowing. The Board and the Finance Committee can perform a more detailed analysis after the AGM, as the new conditions do not come into effect unless the Board determines that the response to those conditions would benefit the co-op.

How does the size of the member loan relate to the size of the member fees? The two are unrelated. Offering a discount on fees to members who have paid member loans is an administratively convenient way of collecting a small extra amount from members who have not supplied those loans, with the extra amount to be used for interest to borrow the same money from our credit union instead of from members.

If 70% of the members agree to the larger loan, and we don't need to increase our line-of-credit borrowing, why do the non-lending members need to pay $4 per year to cover interest costs? The proposal to raise the member loan has an interesting, beneficial side effect. It wasn't why the proposal was made, but it's worth discussing. In a stable, successful co-op, interest-free membership loans serve two roles. They provide equity on the balance sheet, and they save the co-op the cost of borrowing that money elsewhere. Of course, every co-op must find a level at which the required loan raises money without discouraging membership. In Karma's case, if we could raise the loan from $70 to $100 without discouraging membership, and if all of the existing 900 members lent an additional $30, that would bring in an additional $27,000 in interest-free loans. Let's assume we need to pay 4% interest on our line of credit. That additional $27,000 would save us about $1,080 per year in interest costs. If, instead, only 70% of the members lent us an additional $30, with the remainder withdrawing their loans, then the total member investment stays the same, and we save nothing on the line of credit. However, that scenario brings an additional $1,080 in higher member fees ($4 per non-lending member, the difference between $36 now and $40 in the future) as an offset against interest costs, the same $1,080 we'd save if everyone were to be a lender. If fewer or more than 30% of the members choose to be non-lenders, the benefit is still the same as if all were lenders. The exact savings might be a little more or less, depending on the interest rate we need to pay, but the bottom line is that Karma will get most of the benefits of a general increase in the member loan, even if many of the members are not themselves lenders. To answer the original question, non-lending members need to pay $4 per year as their fair share of the benefit Karma gets from having a larger standard loan, even if our total level of borrowing on our line of credit does not change. (The additional $1 per year that lending members save, lowering the current $36 fee to $35 if paid yearly in advance, reflects improved cash flow and a savings in administrative cost.)

How does this proposal affect the building loans? This proposal to change the member loans has no direct effect on the terms of the voluntary building loans. It is likely that, if member equity declines significantly, we might try harder to raise more building loans, rather than increase our line of credit, since interest rates are somewhat smaller on the building loans. Also, building loans serve an equity-like function: they demonstrate member-owner confidence in the co-operative and sharing of the co-operative's risks, even though they rank ahead of true equity in their priority of repayment.

What happens to the loans of members who have already left without formally resigning? This proposal does not affect those members' loans. Those members already have the right to request their loans back if they formally resign; very few of them bother to do so. Their loans will eventually be taken into income, just as is happening now. In the future, because many members will not have any loan refunds due to them, they might not bother resigning formally. This may cause some administrative inconvenience, but the advantages of having had their memberships and their shopping for a few years should outweigh any inconvenience.

Will it cost more to collect fees quarterly than semi-annually? The Board had already decided to move to quarterly fee collection before it considered any change to the loan, and we expect to proceed with that change regardless of the outcome of the loan proposal. In making that decision, the Board knew that this would eventually require an overhaul to our member records software, an overhaul that was long overdue in any case. On a temporary basis, it will be possible to make this change with revised shop/work cards. The new cash registers do not have the capability to fully administer either the current or the new fee system, though they do have the capability to provide much of the necessary information (household numbers and fee payment amounts) to new membership software executing on a separate computer.