

DRAFT MINUTES, December 21, 2016

- Present:** Anthony Roisman, Michael Bettmann, Kevin Birdsey, Harrison Drinkwater, Victoria Fullerton, Dana Grossman, Ed Howes, Elizabeth Blum, Sarah Blum (arrived 6:06), Benoit Roisin
- Participated by phone:** William Craig
- Absent:** Brett Tofel (resigned prior to meeting)
- Staff:** Ed Fox, General Manager, Paul Guidone, Director of Finance; April Harkness, Board Administrator; Jacob Vincent, Director of Merchandising; Bruce Follett, Director of Operations; Allan Reetz Director of Public Relations; Lori Hildbrand, Director of Human Resources; Paul Lambe, Employee Learning and Development Manager; Amanda Charland, Director of Member Services and Outreach; Steve Miller, Hanover Food Store Manager; Cathy Moloney, White River Junction Food Store Manager
- Members:** Diane Guidone, Don Kreis

Tony called the meeting to order at 6:00 p.m. in Hanover Board Room, Hanover, NH.

MOTION: Ed Howe moved to allow William Craig to participate in the Board meeting via conference call.

Liz Blum seconded the motion.

VOTED: 7 in favor, 2 opposed, 1 abstained, 1 absent. The motion passed.

Consent Agenda: November 16, 2016 Meeting Minutes, and December 28, 2016 Share Redemption Request

MOTION: Liz Blum moved to accept the November 16, 2016 meeting minutes.

Benoit Roisin seconded the motion.

VOTED: 11 in favor, 0 opposed, 0 abstained, 1 absent. The motion passed.

MOTION: Kevin Birdsey moved to approve the December 28, 2016 Share Redemption Request.

Dana Grossman seconded the motion.

VOTED: 11 in favor, 0 opposed, 0 abstained, 1 absent. The motion passed.

DISCUSSION:

While the Board waited for a conference call with the Co-op auditors, Tony asked for brief reports from:

Retreat Planning Committee: Harrison said that the likely date for retreat #2 is Sunday, Feb. 5 to focus on member engagement, strategic planning issues and other topics selected by the Board; more details to follow

Nominating Committee: Ed reported that information for candidates is now online and the Committee is actively seeking candidates. There will be four openings for three-year terms and one for a one-year term due to the recent resignation of Brett Tofel.

MOTION: Michael Bettmann moved to not appoint a director to fill the vacant Board seat, since the election process was underway

Dana Grossman seconded the motion.

VOTED: 11 in favor, 0 opposed, 0 abstained, 0 absent. The motion passed.

Auditor's Planning (Q&A – Appendix B)

Steve Austin and Garth Allen of Gallagher, Flynn & Company, LLP made themselves available via conference call to discuss the audit planning process and go over questions from Appendix B, a PowerPoint presentation sent prior to the Board meeting and included in the Board packet on the Co-op website. Steve and Garth gave their contact phone numbers, in case of further questions the Board may have. Steve also said that he had a couple of questions for the Board during an Executive Session, but because the Board wouldn't go into Executive Session until later that evening, the questions will be circulated to the Board via email.

Giving an overview of the audit process, Steve said that they use the financial information provided to them by the management team and that it is a risk-based approach. The managers are responsible for the information provided to the firm and the firm is hired by the Board to respond to that information. Harrison asked if there is a narrative at the conclusion of the audit that would be helpful. Garth said that there are two categories of communication; one is the required information of the findings and the other is the internal controls which may result in a "significant deficiency", for example an error that shows a "material weakness" or a "significant weakness". The controlled deficiency is considered a much lower risk and is an area that gets reported to management, not necessarily governance.

Looking at trends and metrics, the auditors can perform an overall review to see if there are holes in normal accounting practices. In addition, they could add to the findings in a business advisory role. The audit could be tailored to include these additional procedures.

Steve reiterated that the audit reveals a financial position at a point in time with accounting practices dictated by industry standards. They can perform tests of the details, but the audit is developed for external use and can be used when financial statements are required by statute. Tony asked if the auditors would provide opinions or judgments on major management decisions. Steve said that it is not the intention of this audit, but if the Board engages them to do that, they will.

General Manager Update (Ed Fox)

Ed Fox began with an overview of Appendix C (HCCS, Inc. Consolidated Budget Fiscal year 2017) and Appendix D (Annual Business Plan for Fiscal Year 2017 HCCS). He said that he sent an email to all staff on Monday, outlining the current state of the budget and provided some explanation as to the status of the Co-op's financial situation. He said that next year he will be concentrating on ensuring expenses are in more in line with sales and revenues. He will make every effort to keep current staff and if someone leaves, evaluate if that position needs to be filled. Sales will be addressed by each store and by each department. Ed said that he is looking at margins across departments over the last 4 or 5 years and that each store will then be given target margins based on store managers and department managers input. The new perpetual inventory system will also help manage inventory better. Ed said the atmosphere in the stores and outlook of staff is good.

Steve Miller said that they are looking at departments every week, such as those that are showing sustained growth. They are all being aligned to be more realistic. Cathy Moloney said that it is similar in the White River Junction store. They are showing growth of a little over 2% in sales from last year, but also coming up with realistic numbers.

Ed Fox and Paul Guidone will continue to look at how they show the Board sales and expenses over time, to keep them informed. Michael said that while we can control some expenses, how do we predict into the future – how can we quantify a reason for growth? Paul said that through target marketing, advertising and purchasing some of that can be done. Bill asked if there were other strategic assumptions that influenced the last budget. Paul said that the anticipated 5-6% growth in sales from the Hanover store renovation didn't happen immediately and that there could be other factors such as under-cutting prices from big box stores, Amazon and on-line shopping and sales, and the millennial shift. He said that it's a J-curve, where the bottom line drops before it rises, but that the customer counts in stores are up. Paul believes that we're coming out of the J-curve and that this will also be a transition year with investments in new technology. Liz thanked Ed Fox, Paul, and the managers for their work and the rest of the Board agreed.

Looking at the Business Plan, there was brief discussion about the future plans for the Commissary, making it into more of a production facility with a food service manager and value-added products. Bruce Follett said that the plans for the Commissary were to evaluate the needs, update the choices and provide consistency from store to store.

Ed H. suggested considering options such as raising capital from members, exploring endowment possibilities or creating a loan program for local agriculture as farms are aging and downsizing. Would this be a good use of Pennies for Change? Ed F. agreed and added the option of creating a culinary learning center training program that would funnel students into Co-op job opportunities like our Commissary.

There was a brief discussion about improving security systems throughout the stores.

MOTION: Benoit Roisin moved to approve the HCCS, Inc. Consolidated Budget Fiscal year 2017.

Michael Bettmann seconded the motion.

VOTED: 11 in favor, 0 opposed, 0 abstained, 0 absent. The motion passed.

Member Comments

Don Kreis said that he is interested in being a candidate for the Board and that he likes the change in the atmosphere with this Board. He would like an opportunity to talk in detail with the Nominating Committee. He also said that he has been on the Board in the past and has been to many Board meetings discussing the budget and that management, the GM and the CFO always try to create a realistic budget. He advised that there is a new securities law in the state of New Hampshire and that Co-ops need a voice in state government.

Diane Guidone said that she believes this is an exciting time for the Co-op. That we can grow in a distinguished way with a different business model and a depth of product choices.

Policy Monitoring (click [here](#) for link to the Co-op's Policies below)

EL 1 – Planning

MOTION: Liz Blum moved to accept the EL 1 Planning monitoring report as in compliance.

Dana Grossman seconded the motion.

VOTED: 11 in favor, 0 opposed, 0 abstained, 1 absent. The motion passed.

Committee Updates

Budget Committee

Benoit reviewed the HCCS Board of Directors Budget for Fiscal Year 2017. Harrison asked for clarification as to why the audit is in the Board budget. Paul Guidone stated that the auditor verifies the manager's numbers for the Board and that it is the Board's fiduciary responsibility to have this verification. It is also in the Bylaws. Dana suggested that the Bylaws Committee look into revising the requirement to mail proposed revisions of the bylaws to members. She suggested that email may be a better, less expensive way to convey the same thing. The Board would like to pursue it, but not as a part of this year's bylaw revisions. The Board also discussed the policy of attending CCMA events and whether there should be limits on the number of Board attendees or cap the amount of money in the budget for such events. The Budget Committee and the Treasurer will revise the details of the budget based on the duly noted comments from Board members, but the total Board budget of \$139,748.61 will not change and does not exceed .002 of sales as required in GP 3.1 "Governance Development." The Board will review these changes at an upcoming meeting.

MOTION: Liz Blum moved to accept the total dollar amount of the HCCS Board of Directors Budget for Fiscal Year 2017 of \$139,748.61.

Harrison Drinkwater seconded the motion.

VOTED: 11 in favor, 0 opposed, 0 abstained, 1 absent. The motion passed.

The renewal of the CDS Consulting contract was also discussed. Liz suggested it may be more cost effective to use their services a la carte. Ed Howe said that with new Board members being elected, there may be more of a need for the training services provided through CDS. The costs and benefits of the contract was discussed.

MOTION: Ed Howes moved to sign the contract with CDS Consulting as presented.

Dana Grossman seconded the motion.

VOTED: 6 in favor, 5 opposed, 0 abstained, 0 absent. The motion passed.

Tony will email CDS reflecting the outcome of the Board vote and asked that if a Board member would like to consult with CDS, to please let him know first, so that the Board can track their use of services.

New Business:

Hanover Cooperative Community Fund (HCCF) Representative Selection

Harrison is interested in the position and if no one else objects, then Tony will appoint him. It's agreed.

Upper Valley Food Co-op (UVCF) Representative Selection

Liz is interested in the position and if no one else objects, then Tony will appoint her. It's agreed.

Corporate Resolution

DISCUSSION:

Harrison asked why we are using Ledyard Bank rather than the National Cooperative Bank. Paul Guidone said that it is to establish a strategic relationship with a local bank providing checking accounts and other local banking services.

MOTION: Michael Bettmann moved to approve the Corporate Resolution with Ledyard Bank.

Dana Grossman seconded the motion.

VOTED: 11 in favor, 0 opposed, 0 abstained, 1 absent. The motion passed.

Executive Session – 8:50 p.m.

MOTION: Dana Grossman moved to go into Executive Session at 8:50 p.m. to discuss a legal matter and to invite Ed Fox, Paul Guidone, and April Harkness to attend with the Board

Liz Blum seconded the motion.

VOTED: 11 in favor, 0 opposed, 0 abstained, 1 absent. The motion passed.

Executive Session ended – 9:10 p.m.

MOTION: Liz Blum moved to come out of Executive Session at 9:10 p.m.

Dana Grossman seconded the motion.

VOTED: 11 in favor, 0 opposed, 0 abstained, 0 absent. The motion passed.

ADJOURNMENT:

Ed Howes moved to adjourn at 9:10 p.m.

Dana Grossman seconded the motion.

VOTED: 11 in favor, 0 opposed, 0 abstained, 0 absent. The motion passed.

Respectfully submitted,

April Harkness
Board Administrator

Harrison Drinkwater
Board Secretary