

# TPSS Board of Representatives Meeting

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Date: July 29, 2012

Time and Place: 6:00pm, TPSS Community Room

Present: David Walker (DW), Tanya Whorton (TW), Matt Hersh (MH), Steve Dubb (SD), Mary Rooker (MR), Nelson Graves (NG), Emily Townsend (ET), Ken Firestone (KF)

Absent: Mike Burnell (MB)

Others Present: Abdi Guled (AG), Marilyn B. (MBe)

Minutes submitted by: Solveig Mortensen (SM)

## RESOLUTIONS:

- In reviewing the agenda, the Board agreed to hold a closed session at the Sept. 2012 Board meeting; add the subject of board meeting attendance if necessary; and add the proposed installment policy. The Board also, briefly, entered Closed Session to approve the June 24<sup>th</sup>, 2012 Closed Session meeting minutes.
- The June 24<sup>th</sup>, 2012 Open Session meeting minutes were approved as amended; TW moved, ET seconded; and approved by consensus.
- DW motioned to approve the presented Expansion Committee Charter and this was seconded by SD; approved by the Board; unanimous vote to approve. (ADDENDUM A)
- The Board resolved to remand the proposed Board Resolution: *Amendment to Expansion Reserve* to the Finance and Audit Committee for review; SD moved, ET seconded; and approved by consensus.
- The Board approved the Financial Conditions Report; approved by unanimous consensus. (ADDENDUM B)
- The Board resolved that TPSS should obtain proposals indicating prices and time availability from at least two independent accounting firms for both a full audit and an independent audit review; DW moved, SD seconded; and approved by consensus.
- The Board approved the removal of NG as a voting representative from the May 2012 vote on the Board President's letter of apology from the May 2012 minutes; approved by unanimous consensus.
- The Board adopted the proposed Member Installment Policy (MC-8) as amended; MR moved, NG seconded; and approved by consensus. (ADDENDUM C)
- The Board approved the removal of MB from the Board due to excessive absences as delineated in by-law 6.2.L.1; SD moved, DW seconded; and approved by consensus.

**GM Report:** The GM informed the Board that the rough estimate for the value of the inventory loss due to the power outage is in process and should be finished this week.

SD referenced previous Board and GM discussions on the issue of generators (to be obtained by lease or purchase) and emphasized what he believed is a fairly immediate need for them. He also expressed a concern that the Co-op may permanently risk its insurance in this regard. Other Board reps. weighed in with suggestions: partnering with other local venues to obtain a generator; purchasing a generator for one store only; acquiring a semi-permanent generator for TPSS and a portable generator for SS, which might

simply run the cash register and the refrigerators; and/or purchasing portable-transferable equipment that can be resold later. The Board acknowledged that the lease on the TP and SS store are up for renewal in two and two and a half years respectively; and, the Board touched on the value of comparing a potential rise in insurance costs versus the cost of purchasing a fixed asset, which may or may not be of use after a move. The Board President also noted concerns with generators, such as noise and the need for environmental offsets. Another Board rep. pointed out that members have asked about solar panels and suggested that there might be member interest in donating towards a general emergency power fund. NG made the point that if the Co-op stores were able to run during a future power outage, the Co-op would have an advantage in sales over vendors who could not.

The GM reflected that the issue of a generator is a high priority; he stated that he is contemplating adding it to the budget and emphasized that he is most concerned with the effects a power outage has on the reputation of the business. Other Board reps. voiced that power loss does not support the aim of creating a store recovery at SS and, one shared that some SS customers have inquired about a generator at the store. The GM planned for management to do research on what the costs of leasing versus buying a generator (permanent or semi-portable, etc.) might be for both store locations.

AG reported that he had a meeting with both the Director of Public Works and OTBA re: the municipal parking lot and the OTBA's short term plan to hold events on it. He also discussed with them how every Friday there is either one or two trucks on the lot. He summarized that they are exploring how the Co-op and the OTBA can work together to utilize the service in the parking lot. He is working on determining where the trucks can be in a way that satisfies the Co-ops needs with respect to the rights of the OTBA. He shared that the OTBA is planning for a car show coming up that will occur on that lot.

The Board thanked the GM for the CoCoFiSt comparatives and for the notifications re: Whole Foods coming to Riverdale, etc. SD remarked that he liked being informed about industry trends and suggested that in terms of accessing information about six stores, he believed there were ways to label them generically, such as A-F, so that the Board would not know which co-ops they were. TW confirmed that this CoCoFiSt data were best presented to the Board rather than the Finance and Audit Committee.

***Expansion Committee Update:*** TW reported that the Expansion Committee (EC) finalized its Charter and recounted that the Board had cast a preliminary vote on it in the previous Board meeting. The Board approved the presented Expansion Committee Charter. (ADDENDUM A)

TW pointed out that the Board President and the GM have been involved with quite a bit of the work of the Expansion Committee and reported that the Board President plans to give a presentation to the City Council the following day. DW relayed that he plans to share, specifically, a slide presentation, and an updated version of the TP Junction Proposal which serves as an executive summary and reflects the increase in sales and the Membership Committee Resolution. He relayed that the presentation gives an overview on cooperatives and will convey the mission, guiding principles, and end policies of TPSS Co-op.

DW presented the Board with a resolution: Amendment to Expand the Reserve Fund. He explained that in June (2012) the SS store was able to repay a portion of the debt that it technically owed to the TP store. He suggested adding additional assets to the fund, specifically, assigning \$455,709 worth of assets. He elaborated that the Reserve Fund is designed to allow for loans, so it is from where loans should originate.

He named the current debts and loans to the Co-op that could be assigned to the Fund because they are monies for cooperative aims, including the \$20K development loan to the OTBA and the outstanding \$2500 loan to the Northampton Community Cooperative, Inc. He pointed out that the Co-op expects these loans/debts to mature within the next few years and described moving the outstanding debt and \$200K in cash from SS to the Reserve Fund. He noted that this would not impair the operating fund or the operations of the SS store because the SS store has enough cash and inventory. Furthermore, he stated that he would like to make the debt to the TP store a real one and the SS store could regard it as the last \$200K.

DW highlighted the benefits of this amendment: it allows the City Council to hear that the Co-op has a million dollar capital reserve fund; it takes debt off the TP balance sheet; and for the time-being, it shields the Co-op from transferring profit into patronage rebates.

Board members expressed interest in the idea yet also wondered about the following: whether it might give the appearance that the Co-op is able to handle any expansion obstacles entirely independently and/or also attract competitors to the lot. TW noted that the Expansion Committee has not yet discussed the issue of making community loans or other loans. She preferred to reflect to the City Council the actual cash position. ET shared that she would like to hear the Finance Committee's (FAC) opinion on the proposed resolution. She also gave overall feedback that the Co-op may not want to make further loans at this juncture. SD relayed that he was not ready to pass the resolution and suggested that it be remanded to the FAC to be revisited at the September Board meeting.

The GM believed that, for the time being, the Co-op should present \$500K in the Reserve Fund and noted that this will be just the first meeting with the City Council.

The Board President reminded Board reps. that the Co-op needs to acquire seven million dollars in the Reserve Fund and urged them to think about how this will occur.

***Finance and Audit (FAC) Report:*** TW conveyed that as shown in the June FAC minutes, the FAC noted some questions and areas where the Financial Conditions (FC) report was unclear; the FAC also discussed things that could be provided in the FC report. She shared that the FAC asked that the Financial Conditions Policy be amended to include the inventory turnover and the formulas for the return-on-assets and return-on-equity. The Board approved the Financial Conditions Report.

TW also confirmed that the accrual method is not currently being used for payroll; however, she explained, a FAC member and the Finance Manager discussed a method to implement it. The Board President clarified that the accrual process takes time; and so, it will likely be approximately two years before the Co-op will get reliable comparative data from it.

TW reported that the firm Chawla and Chawla responded to the Finance Manager with a higher quote than before and revealed that they would be subcontracting out the work of the audit if they performed the job. The Board President raised the question of who, then, would issue an opinion if the Co-op went ahead and contracted with Chalwa and Chalwa.

The Board recounted several issues re: electing to use the firm Chawla and Chawla and choosing to have a full audit this year: a direct consequence of needing an audit that went back three years. The Board President stated his preference to obtain accurate information (accurate numbers); so, he suggested that

the Co-op issue an annual report that states that the included numbers are unaudited and then later issue a new annual report. KF voiced support of this approach.

The Board also discussed finding a new auditor now, but was reminded that management had considered the timelines in conjunction with the RFP schedule and determined a late change in vendor to be unrealistic. The Board President remarked that he had seen a lapse in adherence to Board procedure that has led to a distortion of the governance process. Furthermore, he explained that the Board did not *only* engage with the GM on this issue and pointed out that the GM was not made aware of communications between Board and operations, in this instance.

SD weighed the fact that if the Co-op does not complete a full audit this year it will have to pay for a forensic audit the next, which will increase the overall cost. So he surmised that the Co-op should plan to have three years of auditing, and suggested that all the work be completed under one contract. DW noted the advice of Bruce Mayer, a presenter from CCMA, and advocated that the Co-op seek a new vendor now to start the audit's first year and, thus, incur some economies of scale.

The Board discussed whether, at this point, operations could seek a new RFP; the GM noted all the required preparation. Feedback was given that the Board and/or FAC could not undertake the task either. Plans of action were delineated: having only an auditor's review this year and in the spring of 2013, or putting out a bid for a full audit that looks back one year; a final option was seeking a new auditor immediately. The Board President motioned for TPSS to obtain proposals indicating price and time availability from two independent accounting firms for both a full audit and an independent review. TW confirmed that as Board Treasurer she had wanted the full Board's input and direction on this decision.

***Open Member Forum:*** SM presented a membership opportunity and petition with the group *Truth in Labeling Coalition*; she described their current campaign to require the labeling of genetically engineered food within the U.S. and their membership rates. The Board discussed the potential of a Co-op chip jar for this organization. The GM agreed to consider what other cooperatives are donating to *Truth in Labeling Coalition*. MH remarked that there are many causes he would be interested in seeing the Co-op donate to as well and talked about the aim of scholarships for education on cooperatives.

NG pointed out the inaccurate inclusion of a vote by him in a May 2012 Board vote, which was reflected in the May 2012 Open Session minutes. The Board approved a change to those minutes to reflect his non-involvement with that vote.

***Nominations Committee update:*** MR urged Board reps. to do what they could to encourage people to run for the Co-op's Board and, she reminded everyone that people can apply for Board candidacy through the wiki. She also suggested that candidates should, first, come to a committee meeting and board meeting before running. MR stated that she will send the GM the nominations tasks list that are at the operational level, including adding the October 27 Membership meeting to the nominations file.

***Membership Committee Update:*** SD reported that the Membership Committee is limited in members right now. He shared that he attended the very end of the Food Advisory Committee group meeting and asked them if they would be willing to have a joint meeting with the Membership Committee; the Food Advisory Committee agreed and the joint meeting is tentatively scheduled. SD remarked that the advisory groups are important and will not happen unless they are tasked to a staff member. He relayed that the

advisory groups at SS and TP are nearly nonexistent, which is a particular problem for the SS store, in his opinion. He conveyed his concern that this should be a strategic goal of the Co-op; for, otherwise, the advisory groups will atrophy. SD confirmed that the Membership meeting will be held on Oct. 27<sup>th</sup> from 2-4pm at Historic Takoma, 7328 Carroll Avenue.

**Contract/Capitalization information:** SD presented a proposed membership policy: Member Installment Policy (MC-8). He explained that this proposal adds \$20 in cost in fees and conveyed optimism that it will accomplish its stated purposes, including an increase in both overall and low-income level membership. The Board President shared a suggested amendment to the last clause so that the proposed policy would be in agreement with the current bylaws (ADDENDUM C). The GM agreed to give an update on the effects of the newly approved policy (MC-8) after a period of implementation.

**Events Review:**

**CCMA:** TW described a useful ends monitoring training with a presenter from the Common Market at CCMA; she noted that she sent the presentation to Co-op management and will also send it to the Board. SD shared that he sent all his notes on CCMA to the Board. He highlighted the open book management workshop, which he believed had direction and suggestions that the Co-op should evaluate. He encouraged the GM to follow up with them directly; MH noted Z-train as the consulting group for this. DW commented that Peg Nolan would be a contact for this.

**MAFCA:** TPSS will be hosting the MAFCA Conference in October.

**Board Meeting Attendance:** (added agenda item) DW cited by-law 6.2.L.1, which addresses the absences of Board reps. in excess of four meetings without prior written notice and how a Board rep. can then be removed by consensus or by a majority vote of the Board. The Board noted the absences of MB and approved his removal as a representative of the Board. ET suggested appointing Dan Robinson to the Co-op's Board; DW suggested that ET invite him to the next meeting.

**Budget:** AG shared the draft budget for review to be accepted in September.

**Future agenda items:**

- Strategic conversation with the GM re: indicators

Meeting adjourned 8:45pm

**BOARD ATTENDANCE TALLY:**

**Term 2012:**

| <u>Rep.:</u> | <u>Dec.</u> | <u>Jan.</u> | <u>Feb.</u> | <u>Mar.</u> | <u>Apr.</u> | <u>May</u> | <u>June</u> | <u>July</u> |
|--------------|-------------|-------------|-------------|-------------|-------------|------------|-------------|-------------|
| Burne        |             | *           | *           |             | *           | *          |             |             |
| Dubb         | *           | *           | *           | *           | *           |            | *           | *           |
| Firestone    | *           | *           | *           | *           | *           | *          |             | *           |
| Graves       | *           | *           |             | *           | *           | *          |             | *           |
| Hersh        | *           | *           | *           | *           | *           | *          | *           | *           |
| Rooker       | *           | *           | *           | *           | *           | *          |             | *           |
| Townsend     | *           | *           | *           | *           | *           | *          | *           | *           |
| Walker       | *           | *           | *           | *           | *           | *          | *           | *           |
| Whorton      | *           | *           | *           |             | *           | *          | *           | *           |

ADDENDUM A:

**TPSS Board Resolution: Expansion Committee Charter**

***Revision (June 2012)***

*Purpose*

The purpose of this Board Resolution is to create a board-chartered committee, in accordance with Bylaw 7.2 and Board Policy G7. This committee is to be known as the Expansion Committee, which is chartered to provide oversight to the Takoma Junction Expansion Project and report to the Board on progress.

**Committee role and responsibilities:**

- The Expansion Committee is chartered to serve as the steering committee and clearinghouse for information regarding activities related to the Takoma Junction Expansion Project.
- The Expansion Committee shall cooperate with management and other Board-chartered committees to implement Board policies and achieve approved goals or objectives of the Takoma Junction Expansion Project.
- The Expansion Committee shall meet regularly to provide oversight to the Takoma Junction Expansion Project.
- The Expansion Committee has no authority to spend or authorize spending from the Expansion Reserve Fund , except as explicitly defined by the Board. The Committee must bring spending recommendations before the Board for approval.
- The Committee should recruit Expansion Committee members to provide competent professional skill and expertise, representing diverse perspectives and stakeholders. Committee members should be capable of contributing professional experience in one or more of the following areas: business, finance, strategy, retailing, real estate, legal, marketing or research, nutrition or healthy living, architecture or design, environmental systems or engineering, construction or project management, grants or external funding, training or education, quality systems, cooperation, communications, community involvement, governmental liaison, or other specialized fields.
- The Expansion Committee shall report regularly to the Board regarding plans, activities, and the status of the Project. The Committee should provide advice, data and recommendations to the Board as needed.
- *Insert reference to Board delegation to the GM?*

**Committee Rules and Procedures:**

1. Meetings of the Expansion Committee are open, except for discussion of personnel, contract negotiations, real estate, legal and financial topics, which are prudent to remain confidential.
2. The Expansion Committee will make decisions though majority vote of its members.
3. Prospective Committee members should submit an application to the Committee Chair to join the committee. The application should include:
  - a. a resume or CV
  - b. a signed confidentiality agreement.
  - c. a signed commitment that they have read and support the purpose of the Expansion Committee Charter.

4. The Expansion Committee should keep and approve minutes of meetings and archive them on the Expansion wiki. Minutes of confidential meetings are to be available only to persons approved by the Board, who have signed an appropriate confidentiality agreement.

The TPSS Co-op Board of Representatives voted in support of this Committee Resolution  
REVISION on \_\_\_\_\_.

ADDENDUM B:

**GENERAL MANAGER MONITORING REPORT**

**Board Policy: L4 Financial Conditions**

**Period Covered: July 1, 2011-March 31, 2012**

Producing a monitoring report of the TPSS Financial Conditions Policy provides us with an excellent opportunity to not only report on whether or not we are in compliance with each segment of the policy, but also to analyze the policy itself. Instead of merely stating status of compliance and GM interpretation of each sentence, I will be including an analysis of how well TPSS is implementing the policy, initiatives and progress, and problems to be addressed in the future. I will identify areas of ambiguity and suggest changes in places where I think we will be better served by either eliminating or editing the present policy. We should be paying particular attention to whether or not the reports are appropriate and useful to the GM and the Board. Reports that are not useful should either be abandoned or altered in such a way as to make them useful.

Let's begin with the stated purpose of this policy:

***Goals and Objectives***

The financial goal of the Co-op is to maintain and improve the Co-op's financial standing, preserve the business as a going concern and, where feasible, expand operations and service. The key strategic objective is to serve and expand the Co-op membership. The strategic financial objectives are profitable operations and growing revenues. The strategic market objective is to serve the membership and community through fair trading at market prices.

***Scope***

These financial policies shall apply to the Co-op as a whole and to each of its stores (operating businesses) individually, unless explicitly defined otherwise in a specific policy.

***Monitoring***

Deviation or non-compliance by any operating business, entity or location, or the Co-op as a whole, from any financial policy shall be reported to the board on a monthly basis. A report on budgetary compliance and variance shall be reported to the board on a quarterly basis. When appropriate, the board will be notified as specified in policy directives.

**REPORTS REQUIRED BY POLICY**

***Monthly***

1. TPSS Co-op – Balance Sheet & Income Statement
2. Takoma Park Division – Balance Sheet & Income Statement
3. Silver Spring Division – Balance Sheet & Income Statement
4. Development Project – Balance Sheet & Income Statement
5. Fiscal Year-to-Date – Income Statements
6. Financial Indicators Report – sales growth, current ratio, quick ratio, and debt-to equity ratio
7. Allocations Report
8. Aging-of-Accounts Payable Report
9. Member-capitalization Statistics Report

***Quarterly***

10. TPSS Co-op – Income Statement
  11. Takoma Park Division – Income Statement
  12. Silver Spring Division – Income Statement
  13. Development Division – Income Statement
  14. Financial Indicators Report – gross & net margins, inventory turnover, return-on-assets and return-on-equity
  15. Budget-variance Reports
- Annually*
16. Audit Report or Independent Accountant’s Review report.
  17. Inventory Audit Report

Beginning with the required monthly reports:

**TPSS Co-op combined balance sheet and income statement (1), TP balance sheet and income statement (2), and SS balance sheet and income statement (3)**

It is unclear from the wording of this policy whether the intent is to require that the reports be presented monthly or that they are limited to information for a one-month period. This ambiguity calls for interpretation. I interpret it to mean that the Board will receive this information monthly.

Based on my interpretation, we are in compliance. We provide income statements, by month to the Board for TP and SS, but not for the combined TPSS. However, we do provide on a monthly basis the required reports, on a year-to-date basis, for each of the three entities. We do not provide a balance sheet for TPSS, TP, or SS for the period of a month at a time. But we do provide them monthly on a year-to-date basis.

One line item we might want to address is where are discounts are being reported. Right now, they are reported as an expense on the income statement. By moving discounts to a line beneath sales and showing them as a reduction of sales, we might get a truer picture of our margins. We will make this change effective with the new fiscal year.

Another area that generated discussion around tax filing time is the reporting and treatment of Board stipends. Our Finance Manager has strongly urged that we eliminate all ambiguities and confusions concerning the stipends by issuing monthly checks rather than using gift certificates. (Under Maryland law, an entity such as ours cannot issue “gift cards”, so we are indeed using “gift certificates”. Again, under Maryland law, if these certificates have an expiration date at all, it must be at least four years from date of issue. I support the recommendation, which will make record-keeping cleaner, tax reporting by the Board members easier, and eliminate loading perpetual liabilities onto our balance sheets.

**(4) Development Project (Expansion Fund) – Balance Sheet & Income Statement**

Development data is reported in the combined balance sheet only, and this report is on a YTD period. We are in compliance with providing the Board with this information monthly, as interpreted above.

It should be noted that the entire amount of new member capitalization from the Takoma Park store is being reported to the Development Project statement, while new capitalization from Silver Spring is being reported to that store’s operating account. The way this is being handled is based on the fact that historically capitalization from Takoma Park was going into the money market fund. When the fund was transferred to the Development Project, the established procedure continued. Historically, capitalization at Silver Spring has gone into that store’s operating funds. Are new members, whose capitalization is going into Silver Spring operating funds, incurring higher risks to their investment than new members who sign up at Takoma Park, and whose capitalization is going into the expansion account? The Board may want to consider this question.

Currently, the money in this account is not classified as anything other than reserve funds pending a documented decision from the Expansion Committee on how funds will be used.

**(5). Fiscal Year-to-Date – Income Statements**

We are in compliance with providing YTD income statements.

**6. Financial Indicators Report – sales growth, current ratio, quick ratio, and debt-to equity ratio**

We are in compliance with providing this information. See below for the latest numbers.

**7. Allocations Report**

Allocations are now being reported for most accounts identified as falling under the 70/30 split. There is at least one area in which allocations should be made, but this hasn't been done up to this point. For the ConnectYourCare expenses, it should be easy for the Human Resources Manager to provide Finance with a total amount of claims for TP and SS separately, without identifying individuals and violating HIPAA. Currently, all of these expenses are allocated to TP.

We will begin allocating ConnectYourCare expenses according to actual expenses by store with the new fiscal year.

**8. Aging-of-Accounts Payable Report**

This report is produced every month, and the Board has begun receiving it; we are in compliance. Does the Board find this information of use? Would they prefer to be alerted only to those accounts that are far overdue? I recommend that this report be removed from the list of required monthly reports.

**9. Member-capitalization Statistics Report**

We are compliant in providing monthly information on new members by store location and total membership. Would the Board like more information to be included, such as number of people who cancelled their membership?

*Quarterly*

**10. TPSS Co-op – Income Statement**

**11. Takoma Park Division – Income Statement**

**12. Silver Spring Division – Income Statement**

**13. Development Division – Income Statement**

**14. Financial Indicators Report – gross & net margins, inventory turnover, return-on-assets and return-on-equity**

We are in compliance with all of these reports, except that we have not reported return-on-assets and return-on-equity to this point. Once again, is this something that the Board really needs to fulfill its fiduciary responsibilities? Or is this amount of detail best left to the FAC and accounting department?

**15. Budget-variance Reports.** We are in compliance.

*Annually*

**16. Audit Report or Independent Accountant's Review report.** We are in compliance.

**17. Inventory Audit Report –Noncompliant.** The Board decided to require an inventory audit report when management was counting products in-house. This was to be a checks-and-balances plan to ensure the accuracy of the count. Now that we are using an outside agency to perform the audits, I recommend that we no longer require an audit of their work.

## **POLICY DIRECTIVES**

***Accounting Policy*** The Co-op shall comply with generally accepted accounting principles (GAAP). The Co-op shall comply with applicable state and federal laws regarding financial reporting and other issues, such as regulations, permits, fees and taxes.

My interpretation is that TPSS should follow conservative and useful accounting methods. We are compliant with GAAP and comply with all state and federal laws. Our business license is current, and all taxes are paid on time, as is the fee for the use of the parking lot.

***Accrual Policy*** The Co-op shall report financial statements on an accrual basis. In the case of significant, variable accruals, a reasonable method of estimation may be used.

We are not in compliance. We have not moved to complete financial statements based on the accrual method. For instance, our monthly reports show actual sales for the month, but the cost of wages is not accurately reported for a calendar month cycle since we run payroll every two weeks. Often, hours worked in the previous month are paid in the following month, and hours worked in that month are paid in the next. In order to get a full month, and only a full month, of wages, we need to make adjustments to the data. To move wages to an accrual basis would also require moving other personnel costs, such as PTO and payroll taxes, to the same basis.

This is an issue that has generated a great deal of discussion within the Finance Committee. We must weigh the value we would get out of changing our method of reporting against what it would take to get there and then decide whether it is a worthwhile project.

The main reason for adjusting how we do things would be to enable monthly labor costs vs sales analysis. In order to do this, we can get a report on sales by month. Then we have to run the usually two payroll reports and add and subtract as necessary to track with the calendar month. This is a time-consuming effort. Other solutions that have been suggested include adjusting our payroll so that it runs twice a month, on the 15<sup>th</sup> and 30<sup>th</sup> or 31<sup>st</sup>, or using estimates.

Our Finance Manager has opposed making these adjustments each month for the following reasons:

1. The extra time it would take to make the entry, check, and revise the work.
2. The timing of the payroll report from ADP. The accrual cannot be posted until we receive the ADP journal entry, which is not ready for download until 2-5 days after payroll.
3. The average 2 payrolls/month are consistently within a few hundred dollars of each other. The net change per month is 2-3 days (# of days being reversed at the beginning and at the end of the month). The difference is immaterial.
4. The method we are using is within GAAP, and TPSS auditors throughout the years have acknowledged that our financials are on an accrual basis with the adjustment being made only once – at year end.
5. To reconcile at year-end what ADP counts and what we show, we would have to go back and reconstruct the records.

In summary, what we would get out of adjusting the payroll numbers each month is not worth the time and effort that must be devoted to doing it. If the purpose of this policy is to provide the General Manager with information to use in evaluating sales/labor hours, it is not something I need. I can look at a two-week period of sales that corresponds with a pay period to get a good idea of how we can doing in that area.

**Allocations Policy** Expenses not directly attributable to store operations are to be allocated between each store on the basis of an allocation ratio of 70% of such costs to the Takoma Park store and 30% to the Silver Spring store. The allocation ratio is approximately proportional to the relative contributions of revenues to the Co-op. The total expense allocated to each store shall be reported monthly.

(covered above)

**Inventory Policy** A physical count of inventory shall be done quarterly. The inventory value of goods-in-stock shall be defined as the sum for all items of the physical count times the wholesale cost of each item.

$$\text{Category Wholesale Inventory Value} = \sum (\text{Item Number Counted} \times \text{Item Wholesale Value})$$

$$\text{Store Wholesale Inventory Value} = \sum \text{Category Wholesale Inventory Values}$$

The quarterly physical count is used to calculate an overall cost of goods sold, stated as a percentage of revenues for the quarter. For each of the two following months, this cost-of-goods-sold ratio may be used to make an adjustment on the income statement to provide an estimation of cost of goods sold during those months when a physical count of inventory is not available. An audit of inventory shall be performed annually by an external auditor.

This policy gives the GM the latitude to choose between two methods to use for cost of goods sold between actual inventory counts. However, as we correct the errors in the Catapult system, I would prefer to rely on that data rather than plugging estimates into the financial statements.

**Budget-compliance Policy** Submission and acceptance of a budget constitutes a policy directive and budgetary compliance is expected. An analysis of the causes of budget variance and noncompliance shall be performed quarterly, which may include recommendations for amending the budget or plans to come into compliance with the budget.

For the first time, a budget was developed for TPSS based on projections from each department. Department heads and managers formulated projections for sales, COGs, and expenses. This method has the objective to place accountability and ownership of performance onto the respective departments. During the fiscal year, the intent is for departments to pay attention to and understand how what they do impacts their department's performance.

We are in compliance and submitted a complete budget at the start of the fiscal year. On a quarterly basis, we present to the Board a report showing the budgeted income and expenses vs. actual income and expenses. The Takoma Park store is remarkably on target in most areas. The areas in which we are not in line with the budget are excellent areas for this to happen, as they reflect that we are exceeding projections. As of March 31, the store is has out-performed the budgeted net income bottom line by 1000%!

The Silver Spring store is not in alignment with budget projections. Through the end of March, the store's net income (loss) is five times the budgeted deficit for the year.

We have not done a detailed quarterly analysis of budget variance and will do so going forward.

***Expenditure Policy***

***Policy Limit*** Co-op management may not make an unbudgeted expenditure, or series of expenditures, of more than \$10,000 for any coherent operational or strategic purpose without specific board authorization.

We are in budget compliance. This policy is ambiguous as to whether shifting unspent budgeted funds to different areas requires authorization.

***Required Notification*** Capital asset purchases may be authorized in an approved capital budget, or authorized specifically by board decision. Alert the board if unbudgeted or unauthorized purchases of capital assets total more than \$20,000 for the previous twelve months.

We are in compliance. There have been no expenditures that exceeded the limits without Board notification. Total value of capital assets last year was \$1,066,000. The total this year is \$1,063,000.

***Debt Policy*** Co-op management may regulate ordinary trade liabilities, but may not incur other debt, or any debt with a maturity of more than sixty days, without specific board authorization. Payroll, taxes and trade-payables shall be paid in a timely manner. Borrowing, as authorized, from capital reserve funds is exempt from this policy directive.

We are in compliance, as the GM has not incurred any debt. Payroll, taxes, and payables are paid in a timely manner.

***Reserve-Fund Policy*** Capital reserve funds may be used only for purposes as defined in the reserve-fund charter resolution. Borrowing from a reserve fund is permitted only if authorized by the reserve-fund charter resolution or other subsequent explicit board authorization.

We are in compliance, as we have not borrowed from the reserve funds. \$12,750 was spent for the marketing feasibility study recommended by the expansion committee and authorized by the board. We also loaned \$50,000 to Mariposa as authorized by the Board under Cooperative Principle 6-cooperation among cooperatives.

***Growth Policy*** The Co-op shall maintain growing sales, compared to the same period in the previous year, except as specifically authorized by the board. The board shall be alerted on a monthly basis whenever the rate of growth in sales over same month of the previous year is less than the rate of consumer-price inflation, as measured by the overall Consumer Price Index (CPI-U ALL ITEMS, accessible at [www.bls.gov/cpi](http://www.bls.gov/cpi)). The board shall be alerted on a monthly basis whenever the rate of growth in sales is negative, compared to the same period in the previous year.

***Policy Limit*** Sales must be greater than comparable period of the previous year.

***Required Notification*** Alert the board if sales growth rate over the same month of the previous year is less than the Consumer Price Index.

***Required Notification*** Alert the board if the rate of growth in sales is negative, compared to the same month of the previous year.

We are in compliance. The reported CPI is 3.2 %.

TPSS as a whole is in compliance. Sales at both stores increased over the same period last year. Takoma Park sales increased 6.46%, and Silver Spring sales increased 2.51%

**Liquidity Policy**

Liquidity can be measured using the Current Ratio. A more-stringent measurement of liquidity is provided by the Quick Ratio.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

*Policy Limit*

The Co-op shall maintain a Current Ratio greater than 2.

*Required Notification*

Alert the board quarterly if the Current Ratio is less than 2.5.

We are in compliance of the policy limit. As of the March financials, the Takoma Park store's current ratio is 3.18, well above notification limit. The Silver Spring store's current ratio is 1.01 if the amount owed to Takoma Park is not taken into account. Silver Spring's ratio is below what is required for Board notification and the policy limit. TPSS combined ratio is 2.42, so the total entity is above the policy limit but requires Board notification.

$$\text{Quick Ratio} = \frac{\text{Cash} + \text{Accounts Receivable}}{\text{Current Liabilities}}$$

*Policy Limit*

The Co-op shall maintain a Quick Ratio greater than 1.

*Required Notification*

Alert the board quarterly if the Quick Ratio is less than 1.7.

We are in compliance with the policy limit. Takoma Park's quick ratio is 2.12. Silver Spring's is .68. Takoma Park is well above the policy limit, while Silver Spring is well below. The combined TPSS quick ratio is 1.32. This is within Board policy but does require Board alert.

**Solvency Policy**

Solvency can be measured using the Debt-to-Equity ratio

$$\text{Debt-to-Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

*Policy Limit*

The Co-op shall maintain a Debt-to-Equity ratio less than 0.5.

*Required Notification*

Alert the board quarterly if the Debt-to-Equity is greater than 0.4.

We are in compliance with the policy limit. Takoma Park's Debt-to-Equity ratio is .3, well below the policy limit. Silver Spring's ratio is an alarming 4.54. The overall TPSS debt-to-equity ratio is .48. This is within the policy limit, but it does require Board notification.

## APPENDIX C:

### **Member Installment Policy (MC-8)**

#### **Purposes**

- To increase the number of member-owners and capitalization of TPSS Co-op;
- To increase the percentage of overall sales to member-owners;
- To encourage member-ownership by people with limited incomes so that the Co-op better satisfies our end statement to be “inclusive and accessible to the whole community”; and
- To meet the bylaw requirement in Bylaw 3.1(D) that: “The Board or its designee shall develop and implement a payment plan to enable persons who cannot afford to pay.”

#### **Procedure**

- 1) TPSS recognizes that some members may not have the cash available to pay for 100% of their capitalization at once and will strive to make ownership accessible to all.
- 2) TPSS shall offer at least one installment plan. It may choose to offer multiple plans. It may charge fees to cover the administrative costs of installment collection. Such fees shall not exceed 20 percent of the total cost of membership.
- 3) At least one installment plan shall offer the ability to pay membership in monthly installments. As long as the member capitalization level remains at \$100, this plan will charge \$10 a month over 12 months. The first, and fourth through twelfth months shall count toward member capitalization. The second and third month shall count as the administrative fee.
- 4) If payment is made by installment, TPSS shall require the incoming member-owner to sign a written agreement and/or promissory note whereby the new member-owner agrees to pay for a capital share over an established period of time.
- 5) TPSS Co-op management and staff may administer collection of installment payments as they see fit. This may include a monthly credit card fee, a monthly electronic funds transfer, or monthly collection of the fee at the cash register, among other options.
- 6) A member shall be “in good standing” and shall enjoy all rights and benefits of membership (including discounts), as set forth in Bylaws and Co-op Policy (e.g., MC-7), so long as the member is current in his/her payment of all installments.
- 7) If a member-owner fails to fully pay any installment of member capital when due, and the amount due is not paid in full within thirty (30) days after written notice is sent to the member-owner advising him/her of the nonpayment, then the member-owner’s rights shall be suspended and the member-owner becomes subject to termination.

8) TPSS shall notify the member-owner in writing of the impending termination. Notice must be given at least ten (10) days prior to termination, unless the member-owner fails to satisfy the requirements of Bylaw 2.3(B) (duty to provide TPSS Co-op with correct address), in which case TPSS Co-op will make reasonable efforts to locate the member-owner. If TPSS fails to locate the member-owner within sixty days and nonpayment persists, membership shall terminate automatically and any capital contributions made shall be treated in accordance with Bylaw 3.1(G).