

Approved 10/18/11

Grain Train (GT) Natural Food Cooperative
Board of Directors September 20, 2011 Meeting

Grain Train Business Office, 6:00 PM

Attending: Amy Maus - Vice President, David Heidtke – Treasurer, Trisha Shattuck - Secretary, Carolyn Belknap, Hal Willens, Maggie Daniels.

Robert (Bob) Struthers - General Manager (GM)

Absent: John Paul Westbrook (J.P.) – President, Renee Allen, Allie Greenleaf Maldonado

Tina Van Denburg - Support Services, Secretary to the Board

Time Keeper: Trisha

Secretary: Trisha

Our Mission: The Grain Train is committed to empowered individuals, vital communities and a healthy planet. As a Natural Foods Cooperative, we are the trusted source in northern Michigan for high quality, local, organic and natural products at a fair value to our membership and community.

Meeting called to order: (6:05) Quorum determined

Agenda Review – Board opts to prioritize agenda.

Open Member Forum - None present.

Consent Agenda: (Items reviewed in advance of the meeting.)

Tabled: Approval of the August 16, 2011 Board Minutes was tabled until next meeting. Add this topic to the October agenda please

Deliberative Processes: Maggie states she will present her report on Board Deliberative Processes next month. Add this topic to the agenda.

Motion: General Manager's B6 – Staff Treatment & Compensation Monitoring Report, September 2011. Dave moves to accept Bob's B6 Monitoring Report as in compliance with the board's expectations. Hal seconds the motion. Discussion: Unanimous approval. Carolyn abstains.

General Manager's September 2011 Report – Report submitted in advance and is discussed and approved during the Consent Agenda portion of the meeting.

GM's Important Notes: Staff Photo taken by the Chamber of Commerce, CBLD membership up for renewal (board action needed), **GM contract up October 1, 2011**, Non-Voting Staff Liaison with the Board to remain an active topic of discussion, Board to anticipate having a candidate search and appointment to

the board during the month of November. A recruitment committee should be formed and the GMM (General Membership Meeting) timing resolved.

Old Business: Hal presents his report on Member Buy-In Options using comparisons with similar co-ops. Our cooperative Bylaws state that the buy-in amount is set by the board, and is currently \$210.

Motion: Dave moves to leave the membership total equity buy-in amount of \$210 in place, while leaving details of formulating an affordable buy-in schedule to the General Manager, and asks that he report back to the board with his solution. Maggie seconds the motion. Discussion: Unanimous approval.

Audits & Oversight: Dave presents his report: Accounting and Financial Reporting Standards (See Document Inclusions.) on this topic as the board prepares to initiate the cooperative's first scheduled audit. See Document Attachments.

Motion: Maggie moves to empower the President and the Treasurer to engage David Wilson, C.P.A. for a full audit as discussed with him last year. If he is unavailable or his charges have increased significantly since then, they will seek proposals from other CPAs and negotiate and engage an auditor A.S.A.P. Trisha seconds the motion. Unanimous approval. Please leave this topic on the October agenda.

Parking Lot item: GAAP wording. **Policy Limitations Changes**

B1,10 (current wording): Allow financial record keeping systems to be inadequate or out of conformity with Generally Accepted Accounting Principles (GAAP).

Suggested rewording: Allow financial record keeping systems to be inadequate or out of conformity with commonly accepted accounting and financial reporting systems. The GM will not change accounting and financial reporting systems unless the benefits clearly outweigh the costs or an outside authority (such as a lender or government agency) requires it.

Board Budget Items: CBLD membership (Cooperative Leadership Development), Board Retreat(s), Consultant(s), Moderator(s). Is the board's work sufficiently funded, or is the board financially hindered? Check the Governing Investment Policy. Frame the board's intentions within the scope of the board's vision.

Note: The Mission Statement is currently used by the General Manager to guide decisions.

2011 Retreat: Carolyn suggests a board retreat be scheduled to resolve our Board Ends, Parking Lot topic resolutions and visioning.

General Membership Meeting / Elections: April 2012

Next meeting: 6:00 PM, Tuesday, October 18, 2011

Location: Grain Train business offices, second floor of the Traverse Pie Company building.

Motion to Adjourn: Dave motions to adjourn. Amy seconds the motion. Unanimous approval. 7:45 PM

Board & GM Group Photo still outstanding.

Document Attachments:

**Accounting and Financial Reporting Standards
Prepared by Dave Heidtke
September 2011**

Purpose of accounting: consistently organize financial data in a way that facilitates analysis and economic decision making, and supports financial statements useful in assessing historical trends and management stewardship.

Common characteristic of useful financial reporting

- **Reliable:** information must be free from material error and bias and can be depended on by users to faithfully reflect operations.
- **Understandable:** information provided in financial statements must be readily understandable by users.
- **Relevant:** information must be relevant to the needs of users.
- **Comparable:** users must be able to compare the financial statements of an entity over time to identify trends in the entity's financial position and performance.

Accounting and financial reporting standards create consistent rules designed to ensure these needs are met. How well these needs are met depends on the standard chosen, the size and complexity of the entity covered, and the particular needs of users.

Various standards for accounting and financial statement preparation exist: Generally Accepted Accounting Procedures (U.S.), International Financial Reporting Standards (most of the rest of the world), IFRS for Small and Medium Entities, and various statutory schemes meeting the needs of governmental organizations (e.g. Income Tax Basis of Accounting in the U.S.). For the Grain Train, the choice is between GAAP and ITBA.

Which standard to use is often dictated by regulation, outside parties such as lenders, or the marketplace. We are in the position of many small businesses that have freedom of choice. Given the choice, most of these entities choose ITBA because they feel GAAP is difficult and costly to implement, and yields a lot of irrelevant information. GAAP was created to cover a wide range of large publicly owned corporations using complex financial arrangements for compensation, liability accrual, income recognition, equity calculation, etc. Various groups have been promoting an alternative to GAAP for small entities in the U.S., but nothing has been promulgated to-date.

The Grain Train's finances are quite simple. We don't have complex liabilities or deferred compensation schemes that require extensive disclosures. Accounts receivable are essentially zero. Accounts payable are dispatched in a timely manner.

Depreciable assets are straight forward and equity calculations are transparent. Financial Reporting based on ITBA has an added benefit – required income tax reporting and financial statements are essentially the same. GAAP reporting requires significantly different calculation of earnings and is not comparable to income tax reporting. Financial statements using GAAP would also have to be redone using ITBA to make them comparable to past years. For the Grain Train, ITBA is both less costly and maintains historical comparability.

Audits and Oversight
Prepared by Dave Heidtke
September 2011

(Notes following meeting with between JP, Dave, Bob and Mike Nuorala, 9/9/11)

Audit uses bookkeeping data provided by management and samples some of it to verify accuracy. As only a fraction of the data is independently verified, some issues may not be detected. But most likely areas of error or problems are usually examined.

Auditor examines policies and procedures and spot checks some to see if implemented thoroughly

Auditor will report shortcomings in bookkeeping processes, give an opinion on the adequacy of policies and procedures and whether they seem to be implemented consistently

Results of an audit may lead to a decision to look at certain areas more thoroughly using a process known as “Agreed Upon Procedures”. This is a process where an examiner agrees to thoroughly examine certain specified procedures to see if all relevant transactions were recorded properly, and balance accurately. All examined data is independently verified. An examination of agreed upon procedures can vary in scope and frequency, depending upon the needs to the overseers.

Audit does ~90% of work needed to prepare tax return and write the annual financial report, so it makes sense for the auditor to prepare these documents.