

# THE WHEATSVILLE 2017-2018 FISCAL YEAR ANNUAL REPORT

## Message from The President of the Board

By Rose Marie Klee, Board President

Those who know me know how powerful I find our Co-op's statement of purpose: to promote the transformation of society toward cooperation, justice, and non-exploitation.

It was beautiful to see everyone at the **Big Co-op Fair** and I really appreciated the conversations I had in conjunction with our Annual Meeting. Thank you to all who joined us!

One of the conversations I had at our Annual Meeting was about the level of trust that owners have in our organization and our products. Wheatsville was born of a time when many of the foods that we take for granted today (e.g., organics, whole wheat, tofu) were not readily available. The community of people who founded our Co-op were driven by the ideal of having an economy that exists to serve people (rather than the paradigm which seems to treat people as if they exist to serve the economy). As the availability of organic food has grown, large corporations have sought to diminish what these standards. Wheatsville is ever striving to help hold the line for what quality food should be. We constantly seek the optimal balance of **fair prices to consumers, fair wages to employees, and fair prices to vendors**. We are grateful to our owners who recognize this difference

Another owner approached me to appreciate that we kept our annual meeting to one hour (as a nerd about having meaningful, efficient, and effective meetings, I was delighted to speak with a kindred spirit!). She shared stories of her early affiliation with the Co-op, and also a mistaken impression that to fund our 2009 renovation of the Guadalupe store we had to raise prices. It was a great reminder that from the outside it can be difficult to understand how our operation has evolved. To clarify, rather than having price increases, we have worked to operate more efficiently. If you remember what our old Guadalupe store was like, the aging infrastructure actually prevented several efficiencies. Prices have only increased based on inflation and we (1) consistently work to get the lowest reasonable prices from our suppliers and (2) routinely compare with other grocers to ensure that our prices are competitive for same/similar quality items. We are also continuing to expand our **Co+op Basics** value line of **Field Day** products, and we host a **\$5 dinner every Thursday** to offer value and cultivate community. Because we only exist to create benefits for the community, we are constantly looking for innovative approaches to delivering value.

The other big theme from my discussions: the power of Wheatsville is not only what we do in the store by seeking out and cultivating local vendors, creating good co-op jobs, and modeling good stewardship (e.g., offering paid sick leave, our intensive composting/recycling program); **the power of Wheatsville lies in all of you and what we can do by coming together**. For example, in September we had a record-breaking donation to Meals on Wheels of over \$17,000 – this translates to a lot of meals served to people in need!!! By contributing anywhere between 1 and 99 cents at the register, we are having meaningful impact in supporting partner organizations that help make Austin better and demonstrate the co-op principle (#7) of concern for community.

We welcome any suggestions that you might have especially for how we can, through the act of buying groceries, promote the transformation of society toward cooperation, justice, and non-exploitation. I am also delighted to report that in my many conversations at the Big Co-op Fair, we all agreed that coming to Wheatsville always makes our day!



## Approved Net Savings Resolution Strengthens Wheatsville

By MeriJayd O'Connor, Board Member

During the August and September meetings, the board voted to approve a Net Savings Resolution allocating earnings from our fiscal year ending on June 3rd. As allowed by our bylaws and the state law for cooperative associations, a portion of those earnings was set aside to pay dividends to our investor shareholders. This is in accordance with the individual shareholder agreements, as we have done annually since the year 2000.

Investor shareholders are owners who have participated in our investor share program over the years, contributing additional owner capital to help finance projects including renovations on Guadalupe and opening of our South Lamar store. The remainder of our earnings this year will be retained as owner equity to finance ongoing operations as well as future projects and development.

Although our bylaws and statutes provide an option to allocate a portion of our earnings to patronage dividends, effectively refunding part of our pre-tax profits to owners based on their individual purchases during the year, the board decided not to use our earnings in this way.

As part of the board's discussion, the board determined it important to communicate the reason for this decision and inform owners the benefits of this resolution. Some owners may recall receiving a patronage rebate in the past. This is one of the choices that the board can make when deciding what to do with the portion of a co-op's profit that can, by law, be dispersed to owners. Patronage dividends are a special benefit available to co-ops to reduce taxable income for the organization, but due to prior year losses carried forward, we did not need to take advantage of this strategy to reduce taxes for this year.

Although the current board recognizes that the patronage distribution may act as a feel-good, tangible return of being an owner of the co-op, the board decided to preserve our cash resources this year to enable the best possible ongoing services for patrons and provide for possible growth opportunities.

In addition, the board recognizes that investor share programs are a part of the advantage of being a co-op. Investing in the co-op can be an alternative to banks and private equity. By paying dividends to our shareholders, the board is acting as financial stewards of the co-op, and preserving the viability of Wheatsville's investor share program for the future.

Making these kinds of decisions keeps Wheatsville financially healthy and reflects the values of our community, such as paying a livable wage and offering accessible prices on high quality foods. In the spirit of cooperation, we as owners are allowing our *individual* ownership combine with others to truly empower Wheatsville to make a positive impact in the world.

*The full resolution will accompany the September 2018 Board minutes on the board section of the website.*



photos: Carlos Hernandez



Left: Our Annual Owner Meeting, Above: A few of our Community Action nominees



# THE WHEATSVILLE 2017-2018 FISCAL YEAR ANNUAL REPORT

## Annual Financial Report

prepared by Dan Gillotte, Chief Executive Grocer

FISCAL YEAR ENDING 6/3/18 was a better year financially than 2017 which is good news! The competitive environment continues to be a challenge but we are striving to remain relevant and beneficial to our owners and Austin as a whole. Our continued efforts to provide better lower prices to owners and shoppers does make it harder for us to achieve our margin goals in all areas but it is still a strategically critical part of our business plan. I'm proud to report that Wheatsville is still in fine (and even improved) financial condition.

The income statement and balance sheet presented here summarize our financial performance for the year as verified by an external CPA.

Wheatsville Co-op Income Statement Compared to Business Plan Fiscal Year Ending June 3, 2018		
	ACTUALS	PLAN
<b>SALES</b>	<b>\$34,815,082</b>	<b>\$34,247,812</b>
Cost of Goods Sold	\$21,643,716	\$21,004,183
<b>Gross Profit Margin</b>	<b>\$13,171,366</b>	<b>\$13,243,629</b>
Personnel Expense	\$8,458,506	\$8,585,323
Depreciation & Amortization	\$702,856	\$732,491
Other Operating Expenses	\$3,556,360	\$3,370,913
Interest on Bank Loan	\$180,129	\$182,198
Other Non-Operating Expenses less Non-Operating Revenues	\$14,027	\$165,213
<b>Net Income &lt;Loss&gt; before Income Tax</b>	<b>\$259,488</b>	<b>\$207,491</b>
Provision for Taxes	\$47,000	\$0
<b>Net Income &lt;Loss&gt;</b>	<b>\$212,488</b>	<b>\$207,491</b>

### Income Statement

The income statement, sometimes referred to as a P&L or Profit and Loss statement, is a summary of revenues and expenses. It shows the financial results of a company over a period of time. In this case, it shows Wheatsville's revenues and expenses for the fiscal year ending June 3, 2018. (Note: because of our accounting period structure this financial year had one extra week in it than a normal fiscal year. We'll be back to normal 52 week periods for the next 5 years.)

Wheatsville's sales were \$34,815,082, a 3.8% increase over FYE17. Guadalupe sales continued to have negative year over year growth but Lamar had moderate sales growth which buoyed total co-op sales growth.

Our Cost of Goods Sold (COGS) is the amount of money we spend on product in an accounting period. It is the biggest single expense category at the co-op, with approximately 62¢ of each dollar spent by consumers going to pay for our inventory of merchandise from local and national vendors. This area is a continual balance point for our co-op. We want and need to keep our prices as low as we can but we also need to bring in sufficient margin to pay our livable wages and be sustainable and thrive into the future. This year we struck this balance reasonably well despite a rocky start at the beginning of the fiscal year with lower than planned margins in our fresh departments. We remain committed to keeping retail prices on hundreds and hundreds of items more affordable to more people.

After Cost of Goods, our next biggest expense category is personnel. We spent a little over 24¢ of every dollar taken in at the registers on personnel expenses including wages, benefits and payroll taxes. This amounted to \$8,458,506. This amount was less than budgeted dollar-wise

and lower than FYE17 as we find ways to become ever more efficient in our work. Overall, our supervisors and staff did a very good job doing what we need to do as efficiently as possible. We're paying a livable wage to all staff with benefits and we continue to offer excellent insurance benefits at the co-op, a cost that continues to rise for us as it does for all businesses. At the request of many staff members, however, we also offer an even lower cost insurance option this year that covers the requirements of the Affordable Care Act but is much more affordable to staff.

Our Net Income before Taxes was \$259,488, 0.75% of sales. This is a swing in the positive direction of more than two percentage points from our loss in FYE17.

Wheatsville Co-op FYE18 - FYE17 Balance Sheet Comparison June 3, 2018 vs May 28, 2017			
	06/03/18	05/28/17	Year-to-Year Difference
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash	\$1,486,084	\$503,680	\$982,404
Accounts Receivable	\$95,657	\$124,028	(\$28,371)
Inventory	\$1,037,310	\$990,465	\$46,845
Prepaid Expenses	\$166,982	\$12,798	\$154,184
<b>Total Current Assets</b>	<b>\$2,786,033</b>	<b>\$1,630,970</b>	<b>\$1,155,063</b>
<b>FIXED ASSETS</b>			
Property & Equipment	\$5,920,682	\$6,421,014	(\$500,332)
<b>OTHER ASSETS</b>			
Equity & Deposits in Cooperatives	\$526,032	\$435,619	\$90,413
Deferred Taxes	\$94,000	\$141,000	(\$47,000)
<b>Total Other Assets</b>	<b>\$620,032</b>	<b>\$576,619</b>	<b>\$43,413</b>
<b>TOTAL ASSETS</b>	<b>\$9,326,747</b>	<b>\$8,628,603</b>	<b>\$698,144</b>
<b>LIABILITIES &amp; EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts Payable	\$1,037,713	\$970,193	\$67,520
Accrued Expenses	\$660,429	\$499,869	\$160,560
Investor Shares Dividends Payable	\$58,831	\$58,239	\$592
Current Portion of Long-Term Debt	\$323,613	\$258,281	\$65,332
<b>Total Current Liabilities</b>	<b>\$2,080,586</b>	<b>\$1,786,582</b>	<b>\$294,004</b>
<b>LONG-TERM LIABILITIES</b>			
Long-Term Debt less Current Portion and Unamortized Debt Issuance Costs	\$3,267,881	\$3,072,106	\$195,775
<b>TOTAL LIABILITIES</b>	<b>\$5,348,467</b>	<b>\$4,858,688</b>	<b>\$489,779</b>
<b>OWNERS' EQUITY</b>			
Investor Shares	\$1,692,900	\$1,723,900	(\$31,000)
Membership Capital	\$1,324,425	\$1,238,716	\$85,709
Retained Patronage	\$1,043,125	\$1,043,125	\$0
Retained Earnings	(\$82,170)	(\$235,826)	\$153,656
<b>Total Owners' Equity</b>	<b>\$3,978,280</b>	<b>\$3,769,915</b>	<b>\$208,365</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$9,326,747</b>	<b>\$8,628,603</b>	<b>\$698,144</b>

### Balance Sheet

A balance sheet is like a snapshot of the financial condition of a business at a specific moment in time, typically the close of an accounting period. The balance sheet is one way to assess the financial strength or health of a business. Our balance sheet continues to show a healthy financial footing.

The total assets of Wheatsville Food Co-op as of June 3, 2018 were \$9,326,747 of that \$2,786,033 is considered "current" meaning it is relatively liquid. This includes cash and cash equivalents, inventory, etc. One measure of a business' financial health is called the "current ratio". This measures the ability of a business to pay off its financial obligations in a timely manner. It compares the current assets of the business to its current liabilities. Our current ratio as of June was 1.34 to 1, a reasonable and relatively comfortable place to be for our co-op.

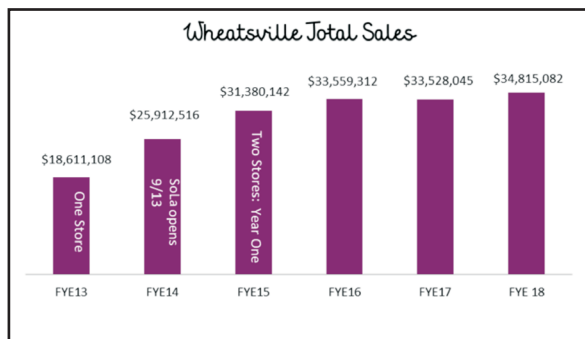
Our overall member equity, the value of co-op assets collectively owned by the members after subtracting all debts owed by the co-op, is \$3,978,280. This equity includes member capital paid in by our owners \$1,324,425 (in 2017 it was \$1,238,716),

# THE WHEATSVILLE 2017-2018 FISCAL YEAR ANNUAL REPORT

In 2012 we launched our strategic plan for the future called Wheatsville's BIG Direction. This was our approach to amplifying the impact we were having with our one store on Guadalupe by adding additional stores over time to help us create **More Local, Organic, Sustainable food, More Co-op Economy and More Happy People**. We had tremendous growth in positive impact with our opening of South Lamar 5 years ago but predictably our impact levels out as we build our resources and infrastructure to open an additional location. These "in-between" years still demonstrate our impact and this report (based on the Ends report we produce for the board) is intended to show what progress we made this past year toward Wheatsville's BIG Direction.

Here we'll share some numbers of note from our Ends Report:

## More Co-op Economy



## Balance Sheet *continued from previous page*

member investor shares \$1,692,900, and retained patronage \$1,043,125 (the portion of patronage allocations not paid out in rebates since 2005). The rest of our equity consists of our retained earnings balance, reflecting the fact we have had slightly more expenses than unallocated revenues over the history of Wheatsville's life.

We obtained a loan from National Cooperative Bank in 2009 for the renovation of our Guadalupe store. In 2013 we rolled that loan up into a new loan with NCB which included funding for the opening of South Lamar. In December 2016 we refinanced the NCB loan with Capital Impact Partners at much better terms which allowed us to pay for the majority of the refresh at Guadalupe while lowering our ongoing monthly payment, a very big win for us. This loan comprises the bulk of our long-term liabilities. The outstanding balance on this loan shows up as *Commercial Notes, less current portion* in Long-term liabilities plus *Commercial notes, current portion* in Current Liabilities.

The CPA-audited balance sheet shows Wheatsville to be a healthy business on a solid footing especially considering the huge transformation we've undergone over the past 5 years!

Thank YOU for your continued incredible support and thanks also to the hard work of our board and staff.

Increased Owner Equity			
Date	Paid-in Capital	\$ increase	% increase
6/3/18	\$1,274,658	84,240	7.07%
5/28/17	\$1,190,418	42,181	3.67%
5/29/16	\$1,148,237	75,668	7.05%
5/31/15	\$1,072,569	135,844	14.50%
6/1/14	\$936,725	169,755	22.13%
6/2/13	\$766,970	63,786	9.07%

Thanks to your support and good work at our stores we saw sales increase in FYE 2018! Sales growth is one measure that more people are having their needs met by their cooperative.

Number of Owners						
Date	5/31/13	6/2/14	6/1/15	5/29/16	5/28/17	5/28/18
#owners*	12,982	15,553	17,813	19,395	21,691	23,352
% increase	10.79%	19.80%	14.53%	8.88%	11.84%	7.65%

We're delighted to see continuing robust growth in Ownership (and therefore Owner Equity). Your friends and neighbors continue to want to be part of our cooperative enterprise. We've busted through the 22,000 owner mark and are almost breaking 23,000 as of press time! Amazing that we've added over 10,000 new owners since 2013!

## Participation in the Co-op Economy with Good Paying Co-op Jobs



A robust cooperative economy would also create jobs, and Wheatsville's growth to 2 stores did create more jobs at our co-op. In order to be financially sustainable with the implementation of a Livable Wage & Benefits program (launched on January 4<sup>th</sup> 2016) we have driven ourselves to be ever more efficient in our work. One of the main tenets of how we would afford a Livable Wage program was that we'd have "Fewer, better paid jobs", with the implementation of this program, we expected the total number of jobs to go down



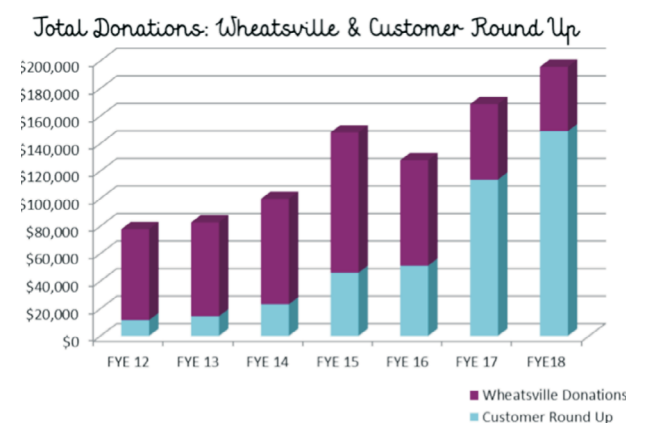
through attrition and not hiring to replace those positions. This has been the case. The Steps and Progress of the BIG Direction also tells us that "more co-op jobs" will almost exclusively happen with the addition of new locations.

While we haven't increased the total number of staff, Wheatsville does put a significant amount of our total co-op resource into the local economy through employee wages and benefits. And, even though we have fewer total employees since our height, more of them are FT and we have 115 more staff people earning a livable wage compared to 2011.

Full and Part Time Staff		
As of date:	Total:	New jobs:
6/3/18	239	-3
5/29/17	242	-7
5/29/16	249	-18
5/31/15	267	32
5/31/14	235	87
5/31/13	148	3
5/31/12	145	21
7/15/11	124	10

## Principle 7: Concern for Community and Co-op value of Caring for Others

Total Donations: Wheatsville and Customer				
Year	Wheatsville Donations	Customer Round Up	Total	Percent Increase
FYE18	\$46,856	\$148,997	<b>\$195,853</b>	17.85%
FYE17	\$54,887	\$113,834	<b>\$168,721</b>	31.86%
FYE16	\$76,714	\$51,239	<b>\$127,953</b>	-13.61%
FYE15	\$102,010	\$46,118	<b>\$148,128</b>	48.47%
FYE14	\$76,677	\$23,187	<b>\$99,864</b>	20.53%
FYE13	\$68,333	\$14,519	<b>\$82,852</b>	6.28%
FYE12	\$66,250	\$11,705	<b>\$77,955</b>	



**Community Action** groups are voted for by the owners to receive a \$1,000 donation from the store plus:

- Round-up donation drive from shoppers
- Volunteer time from Wheatsville staff
- Donation of Goods
- Promotions by having their literature at registers
- An invitation to table in front of Wheatsville

*continued on Page 4*

# THE WHEATSVILLE 2017-2018 FISCAL YEAR ANNUAL REPORT

## Chief Executive Grocer's Report *continued from Page 3*

Two major changes have happened during the last six years. First, in FYE 2011, Front End staff created a way for customers to donate to the Community Action groups through Wheatsville's registers. Prior to FYE 2016, Community Action groups received 1% of sales on Wednesdays. Since the change, we've gotten better and better at raising money, with more and more cashiers asking customers to "round up".

In FYE 2018, we improved our "Round Up" program in two important ways, as reported by Ownership and Outreach Coordinator, Erica Rose:

### Community Action Check Presentations

In FYE 2017, we began printing novelty checks to take to the groups at their locations. In FYE 2018, we began inviting them to a Check Presentation at one of the stores after the donations for the month have been sent to the group. Shoppers get to meet the volunteers and staff from the groups face to face and see just what an impact their "round up" has made! We've seen a huge increase in the donations for this year. This has increased awareness for how much is given to these groups and what a little spare change can turn into.



### Giving Ceremony

We held our 2nd Giving Ceremony this year. We invited all of the nonprofit groups from calendar year 2017 to join us in celebration of community support. Through rounding up at the registers we raised over \$155,000 in calendar year 2017 for the local elected Community Action groups! We celebrated with some kind words and coffee and pie. We nearly **DOUBLED** the Community Action donations from the year before!

### Helping those in need Hurricane Harvey Relief

In addition to the regular Community Action round-up, the Co-op collected fund an additional \$7,188.55 for specific Harvey relief through Feeding Texas. Co-ops from across the country contacted our store to see how they could contribute and ran their own fundraising campaigns, raising thousands more for Feeding Texas. In addition to cash support, we ran our day-old leftovers to hungry aid workers and non-profits around town that were working hard to provide services to displaced people and pets.

### Staff Generosity: Giving Time

#### Volunteer shifts: Documented hours and Gift Card incentive!

In September 2017, thanks to a Staff Idea Form from Erica Rose, and her work putting it all into action, Wheatsville now incentivizes staff volunteer participation with a \$30 Wheatsville gift card for participation in a volunteer activity. Erica Rose also negotiated a partnership with Juiceland so staff can grab a juice after their volunteer activity while Erica shoots live video of a conversation about their volunteer experience and what it meant to be out in the community.

For the first time, we have tracked data on volunteering. **24 unique staff people volunteered 121.5 labor hours in FYE 2018.**

**This year, staff members participated in a number of volunteer activities:**

### It's My Park Day

Wheatsville is the title sponsor. We had a group at Shipe this year! We had a great turn out with 6+ staff volunteering their time at Shipe Park this year! Shout out to the Store Manager Rory and Sal for coming out AND Board Member MeriJay O'Connor!!!

### Central Texas Food Bank Food Sort

We kicked off fall 2017 with volunteering at the Central Texas Food Bank. We were super excited to see their new facility and get in there to lend a hand. The food sort is a fast paced volunteer opportunity and the knowledge our staff has of food comes in really handy. We also spent time in their garden weeding and planting.

### Urban Roots Farm volunteer days

We volunteered twice at Urban Roots. Urban Roots really appreciates the help they get from our staff as they are a little more knowledgeable in basic gardening and farming. We have a great relationship with them. They have used the community room for their student cooking showcase, and the kids love coming to Wheatsville.

### Meals on Wheels Central Texas

In February we had a super great turnout for a special Valentine's Day Delivery for Meals on Wheels Central Texas! Meals were sponsored by Wheatsville this day and our logo was on each meal delivered.

### Principle 6: Cooperation among Co-ops

Our growth over the years as a co-op business and our many excellent programs and achievements has attracted a lot of attention from other food co-ops in the country. We're frequently asked to share our practices and processes with co-ops. There isn't a week that goes by that we don't get one or several emails from food co-op operators and boards asking us how we do something or other the Wheatsville Way. Some of the areas where we are seen as leaders in food co-ops include: our service, being the friendliest store in town, our Open Book Management system, our merchandising excellence, our strategic direction for the future, our board/ GM relationship, our staff culture and commitment to servant leadership.

Dozens of food co-ops around the country see us as a role model and would like to emulate the success that we have had. Coordinators have been self-reporting cross-cooperative activity and **successfully logged 482+ hours sharing information** with other co-ops regarding everything from recipes and communication tools to \$5 Dinner and the BIG Co-op Fair, preparing and presenting at conferences, providing technical support, and serving on other cooperative boards.

This past year was a positive one for our co-op despite increasing competition from the giants in the food industry like Amazon's acquisition of Whole Foods and HEB's continuing growth and advancement. Thanks to your support Wheatsville remains steadfast in our commitment to our shared values and plan to find ways to thrive despite the challenges before us. Your participation is essential in this and we continue to need you to be huge positive ambassadors for our co-op enterprise. Wheatsville's BIG Direction is our road map to this word we are trying to create and it creates the economic engine that we need to accomplish great things together.

Hopefully this report fills you with satisfaction that Wheatsville is working hard to grow our positive impact and managing our shared co-op resources in a manner that keeps us sustainable as a business while driving our shared values forward.

### WHEATSVILLE ENDS POLICY

**Wheatsville will be at the forefront of a transformed society that has:**

- a thriving community centered on hospitality, kindness, and generosity
- a robust cooperative economy
- easy access to sustainable, healthy food solutions

## Board Compensation

by Doug Addison, Board Member



Each year, the Board reviews compensation for directors, as outlined in Article 5.11 of our bylaws. This annual review is done to assess whether the existing policy is the policy we want to maintain for the upcoming year. We report our decision to our members in the Annual Report for full disclosure and process transparency.

Compensation takes into consideration the many hours directors spend in co-op service, including board meetings, committee work, outreach, and other activities. Board members have long received a 10% discount on most purchases at the co-op. In more recent years, the board introduced monthly stipends, currently set at \$300 for the President, \$200 for the Secretary & Treasurer, and \$150 for all other directors. Stipends are not intended as compensation for hours worked, but rather as a way to signal the value of the Board's work to the cooperative, and to recognize the effort required to serve effectively.

Compensation to board members via discounts and stipends is quite common among food co-ops. Research done in 2012 for food co-ops of comparable size found monetary compensation varying from \$300 to \$4800 per year for Directors, and discounts varying from 5% to 20%. Increased stipends for Officers are also a common practice. Our board compensation policy is in the middle of the range.

During our annual review of compensation, the Board discussed the research previously conducted regarding common practices amongst food cooperatives across the nation. In recent years, we have noted the increasing amount of time it takes to serve, as additional trainings, more involved committee work, and increasingly lengthy and detailed monitoring reports have become standard. As the co-op grows and becomes more complex, so too does the job of the Board.

After considering our current compensation as well as the financial position of the co-op, the Board felt that the current arrangement is both appropriate and sustainable for Board members as well as the cooperative, and voted to make no changes to Board Compensation for the 2019 board.

For those interested in sharing their opinions or learning more about Board work, we hold "open time" at the beginning of each regular monthly meeting for whomever may want to come. You can find more information or sign up for open time in the Board section of Wheatsville's website.

## Board of Directors Code of Conduct

by Rose Marie Klee, Board President

The Wheatsville Board of Directors takes co-op stewardship seriously, and we have established routine practices to help ensure that this culture and commitment are maintained. To ensure transparency to our Owners, the policy (B5), "Directors' Code of Conduct," includes a provision that we report our "adherence to this policy in each annual report." This policy establishes expectations for behaviors around conflict of interest, confidentiality, and our code of ethics. It dictates that the Board must come to meetings prepared to make informed decisions, in good faith, that are in the Co-op's best interests, and which supersede any conflicting loyalties. It states that individual directors should not attempt to exercise individual authority over the organization, but rather that we speak with one voice and support the legitimacy and authority of the board's decisions, irrespective of personal position. Before any candidate is considered qualified to run for the board, we require that they review, sign, and submit their statement of agreement and each year before the board is seated we discuss the statement of agreement and require that every director submit a new, signed document. Our board policy establishing expectations for director conduct is monitored annually in May. Each director reviews the policy and rates our performance and at the meeting, results are discussed to ensure that we are performing well and to share any ideas for what we might do to improve. We use a scale of 1 to 5, with 5 being the best, to gage our performance.

This year the overall score for policy B5, "Directors commit to ethical, business-like and lawful conduct" was 5.0. The majority of sub-policies scored 4.8 or higher, and the average overall score of 4.9. Overall, we believe that the board is adhering well to our Code of Conduct. Our entire policy register can be found on the Wheatsville Board of Director's page (<https://wheatsville.coop/membership/board-of-directors/board-policy-governance>) and we always welcome questions from our Owners.

## Message from the Review Committee

submitted by Lisa Mitchell, Board Treasurer

The Board of Directors appointed board members Lisa Mitchell (Treasurer) and Brandon Hines, along with Wheatsville Owners RJ Armstrong, Jamie Atkinson, Jeff Horvath, and Stephanie Wong to serve as the Audit & Review Committee for Wheatsville's 2018 Annual Report to the Owners. In accordance with Wheatsville's by-laws, it is the Review Committee's responsibility to ensure that the Annual Report is complete, accurate and easy for owners to understand.

To ensure the Annual Report contains all required elements, the Committee reviewed the guidelines for a cooperative's Annual Report to members, which are specified in the Texas Cooperative Association statute and our Co-op's by-laws. This includes Wheatsville's balance sheet, income statement, total number of shareholders, amount of paid-in capital, and other financial metrics. The Review Committee can confirm that Wheatsville's Annual Report is in compliance with all legal requirements.

To check accuracy, the Board again hired Wegner LLP, CPAs and Consultants, a professional services firm that specializes in working with cooperative businesses. Wegner LLP's accountants have performed annual audits or reviews of the Co-op's finances for several consecutive years. The firm also prepares the Co-op's annual federal tax return. Wegner LLP reviewed financial statements included in the Annual Report. Consistent with Board policy, Wegner LLP conducted a full audit of Wheatsville in 2018, as it has done the previous four fiscal years. Prior to 2014, Board policy called for a less extensive review in alternating years, the last of which was completed in 2013.

The auditors worked to obtain reasonable assurance that the issued financial statements fairly reflect the cooperative's financial position. Their efforts resulted in a clear, unequivocal opinion confirming the accuracy of the financial statements.

Wegner sampled and tested bank reconciliations, accounts receivable, payable accounts, bank statements for notes payable, fixed assets, and depreciation expense as needed to support their opinion. The accountants also reviewed recent tax payments to confirm they were paid completely and on time. As a result of our conversations with Bruce Mayer, a partner at Wegner, and Kyle Schaaf, the CPA who led the audit, about their processes, the Review Committee can report that the audit was conducted in a manner consistent with professional accounting standards. In addition, the accountants said they encountered no issues or problems in the course of the review. This reflects well on the work of Wheatsville Finance Manager John Perkins and his staff.

The audit results showed that over the last year, the Co-op's financial condition improved. This is due, in part, to the fact that we are one year farther out from the opening of the South Lamar store. Wheatsville is on a normal trajectory for a business that has opened a new location. The refinance of long-term debt that was reported on last year has now been completed and all debt covenants are resolved with no items open. Our liquidity is good and we continue to focus on sales growth.

The Board will continue to arrange for independent auditors like Wegner to conduct full annual audits of Wheatsville's financial statements. Audits will include assessment of accounting policies and internal controls relevant to the preparation of the financial statements. The Board continues to monitor Wheatsville's financial results routinely as part of policy governance, as well as creating the Annual Report to Owners.

We hope you find this year's Annual Report easy to understand. Wheatsville is in stable fiscal health and continues to be positioned to anchor Austin's cooperative economy, with the strong engagement of our members. The Review Committee commends the 2018 Annual Report to the Owners of Wheatsville for review.

Here are some web links that may be of use as you review the Annual Report:  
<https://wheatsville.coop/membership/board-of-directors/bylaws>  
<https://wheatsville.coop/membership/board-of-directors/board-policy-governance>

I certify that I am not a principal bookkeeper, accountant or employee of the Co-operative

Lisa Mitchell, Treasurer, Wheatsville Board of Directors

