

HARVEST MOON
*Annual
Meeting*

2015

ANNUAL MEETING

When reflecting on our 2015 fiscal year, one word sums up the Harvest Moon Co-op, “**learning**”. We began the year in a difficult financial position, and temporary leadership was brought in to help us make course corrections. Our year was filled with ups & downs. While we delivered on the sales line we failed to deliver on our Net Income. From our co-op leadership to other team members, we were all **learning** how to make the co-op thrive through new buying procedures and practices, re-establishing product standards, determining best practices for our deli to operate and maximize production, determining what products our Member/Owners and customers are looking for, and re-evaluating labor needs as well as re-building the co-op team.

Through our **learning** in the 2015 fiscal year we are positioning ourselves to manage through our challenging financial situation and we are already making strides to address these challenges head on. Our biggest opportunity was getting our inventory in line. Our new buying procedures and practices are in place and are being utilized daily. These tools have given our management team insight and educated them on how to be better buyers.

One of our co-op’s biggest draws is our deli. Through re-evaluation of product standards we have made decisions to change some of our offerings. While this has been a somewhat hard transition we are confident that items we will be introducing will be well received by our community and good for the co-op. We know that our community comes to our co-op with high expectations for the products they are purchasing as well as what they are eating from our deli. We want the products we deliver to meet these expectations.

The co-op is now in a team building mode. While our leadership team is still rather new, it is filled with people that have a passion for the co-op and bring to it new knowledge and skills. We are working together to create a store that fulfills the mission of the co-op.

Our largest area of **learning** was and is meeting the needs of our Member/Owners and community as a whole. We gained 81 new Member/Owners, which brought us to a total of 1585 Member/Owners. We instituted several new Member/Owner benefits which have been well received. One of these benefits is our “Big Supporters” program, which rewards those who are spending \$500 a month. This program began in September 2014 and has grown from 28 people per month to 45+ per month. Also well received is our Member/Owner Appreciation Day, where all Member/Owners receive 10% off their purchases on the second Friday of every month. On these days we see our business increase an average of 24%.

Our Member/Owners consistently represent roughly 53% of our business. Our hope is to see growth in our total Member/Ownership. Through stronger buying practices our goal is to continue to meet our community’s needs while also introducing new and exciting products.

Harvest Moon celebrated its 5th year during our 2015 fiscal year. Throughout our first five years we as a co-op and community have been **learning** what we need from each other to really thrive. While the financial challenges have been and continue to be significant we have a strong team and strong community. Together we can grow!

Carrie Miller

General Manager

Harvest Moon Natural Foods Co-op

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BOARD PRESIDENT
REPORT

Hello fellow Owners,

This past July we celebrated our 5th anniversary. This is quite an accomplishment for a new business. When looking at data from the Small Business Administration, 1/3 of new businesses fail within two years and by year 5 only 50% are still open. While we have survived as a business we still have progress to make in all aspects of our operations.

As we look back to where we started from to where we are today we have made great strides. Back in 2005 a group of individuals got together based on a common dream, to have a local grocery store. They started talking to many of our local metro area grocers to see if they could get them to build a store in our area. None of the local grocers were interested, but this group was still passionate about having a local grocery store. They learned of grocery cooperatives and started down the path to create what we have today. In order to get the funding to open the store, a business case was created and many fundraising activities occurred. Some of these fundraising activities included obtaining loans from both you our Member/Owners as well as commercial banks. An element of the business case was laying out financial projections. These projections assumed a much higher initial sales level and a more aggressive year over year growth than has actually been achieved. As you can see from our latest Financial Summary, we have had sales growth averaging just over 6% year over year and sales are now over \$3 million annually, but have not achieved profitability. The commercial loans had balloon payments due this year that we have been able to extend out over a longer period of time. This has helped ease our cash flow and put us into a better position for the future. But now we need you, our owners, to help drive us further. Did you know that in a typical week 53% of our sales come from you, our fellow Member/Owners? That means that 47% comes from people who are not yet Member/Owners.

Within the next quarter we will be sending an online survey to all owners asking them to answer questions about our product mix. Questions about if you are looking for more Natural Foods, more local producers or more conventional name brands. We will also be asking what you would like to see out of your store in terms of community engagement and volunteer opportunities. Items like educational speakers, cooking demonstrations and food trends. We will also be asking for you would like to volunteer to help put together a newsletter or help set up a New Member/Owner Orientation.

Back in 2006, when Harvest Moon first formed, there was a desire to become the community grocery store. While we have survived our first five years and established ourselves as a grocery store, we know that we are still not serving the whole community. That we have lost some of you long the way and that we have not fully engaged others. Our ask is that it takes all of us to make this a full success and that we need your input and even participation to make us better.

Yours Cooperatively,

Michael Otto

Board President – Harvest Moon

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FINANCIAL REPORT

Financial Summary

In FY2015, the store had mixed financial results. Sales growth was strong, but was offset by lower gross margin and higher expenses resulting in a larger loss. Accounts Payable increased significantly early in the year as a result of increased inventory and lower available operating cash. Starting in the 3rd quarter, significant focus was put on reducing payables. At June year end, the store had successfully reduced excess inventory and is actively working with suppliers to pay overdue amounts.

Sales

Total FY2015 sales were \$3,092,359, a 4.8% increase over last year. FY2015 sales exceeded budget by 1.8% or \$53,122 due primarily to increased sales of Produce, Meat and Cheese. FY2016 sales are budgeted to increase 5% from FY2015, primarily from product assortment and category management improvements in Grocery (Dairy and Packaged Grocery), the Fresh departments (Produce, Meat & Cheese) and from improvements in the Deli.

Net Income

The store realized a FY2015 net loss of <\$178,801> vs. <\$144,838> last year. Gross margin was 36.0% vs. 37.6% in FY2014. The reduction was driven by lower prices and a less rich product mix from proportionately higher Grocery and Fresh department sales which carry a lower average margin. Expenses were \$36,444 higher than last year due primarily to costs to employ an interim General Manager. FY2016 expenses are budgeted to be down by \$21,524 vs. FY2015 and no longer include costs for an interim General Manager.

Balance Sheet and Cash Flow

Total Assets decreased by \$129,497 due to \$118,812 in depreciation and a \$30,978 reduction in Inventory. Inventory Days of Sales dropped from 25.6 in FY2014 to 20.9 in FY2015 due to an increase in sales and a 4th quarter inventory reduction. Total Liabilities increased by \$31,780 due to a \$75,229 increase in Accounts Payable offset by \$51,366 in loan payments. As of August 2015, Days Purchases Outstanding are 36.8, down from 41.4 at year end. In FY2015, the store worked with its outside creditors to restructure long term loans to eliminate balloon payments due in May 2015 and extended long term loan terms on average by 3 years. The store also entered into an agreement to pay down its line of credit on a monthly basis.

Member Loans and Equity

Membership increased by 81 households, bringing total membership to 1,585 at the end of FY2015. Total Equity at the end of June was <\$513,346>, down \$161,276 from FY2014. Through June 2015 the store has member loans of \$202,000 that have reached or exceeded maturity dates. Since the Co-op isn't in a position to pay these loans and third party credit agreements restrict repayment of member loans, communication has been sent to affected members giving them the option to extend the due date of their loans or convert their loans to preferred stock.

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FINANCIAL REPORT

Fiscal Year Ending

6/30/2011 6/30/2012 6/30/2013 6/30/2014 6/30/2015

Key Performance Indicators

	6/30/2011	6/30/2012	6/30/2013	6/30/2014	6/30/2015
Member Count	1,264	1,350	1,421	1,504	1,585
Sales	2,447,146	2,759,137	2,858,829	2,950,718	3,092,359
% Growth		12.7%	3.6%	3.2%	4.8%
Average Sales/Week	47,063	52,965	54,893	56,491	59,468
Customers/Week	1,974	2,324	2,422	2,521	2,684
Average Basked Size	\$24.21	\$22.86	\$23.14	\$22.41	\$22.44
% Gross Margin	34.8%	37.6%	38.2%	37.6%	36.0%
Total Labor as a % of Sales	26.2%	20.5%	20.4%	20.7%	20.8%
EBITDA	<198,068>	27,022	36,847	28,136	<18,416>
Net Income	<399,079>	<271,945>	<183,649>	<144,838>	<178,801>
Operating Cash Flow (before debt service)	<242,110>	31,684	65,627	56,205	90,182
Total Inventory	177,499	196,388	197,876	210,106	179,128
Days of Sales	26.1	25.6	24.9	25.6	20.9
Total Accounts Payable	96,477	98,226	117,839	152,399	227,629
Days Purchases Outstanding	21.8	20.5	24.0	29.8	41.4

BALANCE SHEET

	Fiscal Year Ending				
	6/30/2011	6/30/2012	6/30/2013	6/30/2014	6/30/2015
Current Assets	222,643	250,994	231,221	250,278	233,365
Property and Equipment	1,223,154	982,546	815,437	692,591	574,438
Other Assets	55,372	19,046	19,454	19,569	25,137
TOTAL ASSETS	\$1,501,169	\$1,252,587	\$1,066,112	\$962,438	\$832,940
Current Liabilities	298,366	291,312	329,227	390,416	461,847
Member Loans	540,725	577,835	579,627	574,717	575,812
Long Term Debt inc Current	539,800	480,482	416,548	349,374	308,627
TOTAL LIABILITIES	\$1,378,891	\$1,349,629	\$1,325,402	\$1,314,507	\$1,346,286
Membership Stock	217,525	234,150	246,550	263,108	277,633
Preferred Stock	533,000	569,000	578,000	613,500	616,500
Retained Earnings	<229,167>	<628,246>	<900,192>	<1,083,841>	<1,228,678>
YTD Profit (Loss)	<399,079>	<271,945>	<183,649>	<144,837>	<178,801>
TOTAL EQUITY	122,279	<97,041>	<259,291>	<352,070>	<513,346>
TOTAL LIABILITIES & EQUITY	\$1,501,170	\$1,252,588	\$1,066,111	\$962,437	\$832,940
Current Ratio	0.75	0.86	0.70	0.64	0.51
Quick Ratio	0.15	0.19	0.10	0.10	0.12
Debt to Equity Ratio	11.28	<13.91>	<5.11>	<3.73>	<2.62>

INCOME STATEMENT

Net Sales	\$2,447,146	\$2,759,137	\$2,858,829	\$2,950,718	\$3,092,359
Cost of Goods Sold	1,594,436	1,721,816	1,766,880	1,840,777	1,979,712
Gross Profit	852,710	1,037,321	1,091,949	1,109,941	1,112,647
Operating Expense	1,249,382	1,309,266	1,275,598	1,255,004	1,291,448
OPERATING PROFIT	<\$396,673>	<\$271,945>	<\$183,649>	<\$145,063>	<\$178,801>
Other <Income>/ Expense	2,406	0	0	<225>	0
NET INCOME(LOSS)	<\$399,079>	<\$271,945>	<\$183,649>	<\$144,838>	<\$178,801>
Operating Cash Flow (before debt service)	<242,110>	31,684	65,627	56,205	90,182

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ELECTION

One of the most important ways to participate as a Member/Owner is to vote on the election of directors. The Board has seven seats with staggered three-year terms. Under our Bylaws, each director can serve two full consecutive three-year terms. If a director resigns mid-year, the Board can appoint someone to fill that seat until the next election, when the director then needs to run for the remainder of that seat's term.

This year you are voting for two new candidates, Jim Buck and Linda and Thrasher, who are running to fill open three-year terms. One incumbent candidate, Jennifer Weiss is running for her second full term. One two-year term created by a resignation earlier this year remains open. If you are interested in being considered for later appointment to this seat, please fill out an application at the store and contact Michael Otto or Jennifer Weiss.

(Go to the Board Candidate Pages for biographical information of each candidate.)

Voting this year will take place primarily online through Survey Monkey. (see link below). Paper ballots will also be available in the store and at the Annual Meeting if you prefer to vote by paper.

All Member/Owners are encouraged to vote in the election. Our Bylaws require a quorum of 50 Member/Owner households to vote (one vote per household) for the election to be valid.

**CLICK HERE
TO VOTE:**

<https://www.surveymonkey.com/r/2JB58PX>

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BOARD CANDIDATES



**Jim
Buck**

I have more than nineteen years of experience successfully developing and commercializing innovative medical technologies. Prior to joining Mardil, I served as President & CEO of SetPoint Medical, a privately funded early stage developer of an implantable neuromodulation device system to regulate uncontrolled inflammation; VP, marketing & business development at InnerPulse, a privately funded developer of a novel implantable defibrillator system; and VP, marketing & business development at Closure Medical, leading the product mapping strategy and execution for a breakthrough surgical sealant and adhesive technology culminating in a \$370 million acquisition and integration into Johnson & Johnson. Previous to Closure Medical/J&J, I held several positions of increasingly greater responsibility over eleven years at cardiac medical device leader St. Jude Medical. I hold a master of management from Northwestern University's Kellogg Graduate School of management and a bachelor's degree from Indiana University. I was one of the founding Member/Owners of Harvest Moon and reside with my wife Lisa and four children in Orono, MN.



**Linda
Thrasher**

My leadership experience includes launching an early stage company as well as a Fortune 500 public company, advising high profile companies across multiple sectors and shaping policy for one of the world's largest privately held companies.

Prior to serving as a co-founder of my current venture, I led the corporate practice area for Himle Rapp & Company, a Minneapolis-based public affairs consulting firm. Prior to consulting, I spent nearly two decades in the corporate sector, including serving as a founding member of the executive team that created Mosaic, a Fortune 500 company. In my role as Vice President of Public Affairs, I created the company's global Public Affairs function and was responsible for building the brand and communications strategy. Before joining Mosaic, I served as the Director of Public Policy in Cargill's Washington, D.C. office and led the company's legislative and regulatory efforts for a variety of Cargill's industrial and food businesses.

I began my career with the U.S. House of Representatives where I managed trade, energy and agricultural issues for two congressional members. I have a B.A. in English and political science from St. Catherine University and a J.D. from William Mitchell College of Law.

I am an active member of the Twin Cities community, I served on the boards of St. Catherine University and the YWCA of Minneapolis, and am also a member of the Minnesota Women's Economic Roundtable

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BOARD CANDIDATES



Jennifer
Weiss

I was appointed to the Harvest Moon Board in March 2011 to fill the remaining term of a departing Board member and ran for my first full three year term in September 2012. While on the Board, I have held officer roles of Secretary, Treasurer and Vice President. My husband Glen and I have lived in Long Lake for 11 years. We have a daughter, Zara who is in 5th grade at Orono. I have 25 years' experience in senior finance leadership roles at Valspar and Liberty Diversified International. I serve on the Harvest Moon Board because I am passionate about having a local source of healthy food that is grown in a sustainable and humane way. My vision for Harvest Moon is for the store to be the first place people think of going when they need groceries, a place where everyone feels welcome, and a place where we can connect with others in the community. It is an honor to represent the membership of the co-op!

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LOOKING AHEAD

PUT YOUR \$
WHERE
YOUR ♥ IS
BUY LOCAL

We continue to expand our LOCAL partnerships. Just as we need your LOCAL support to thrive so do our partners. We are currently working with 49 LOCAL partners!

We are continuing to expand our Meat department. New offerings include: wild caught lake superior trout, smoked salmon & ground bison, just to name a few.

We are also offering pre-order meat packs! Stop in today & pick up a flyer. These are amazing offerings from Hidden Streams Farm (beef & pork) & Gerber Amish Chicken.



Our deli is one our co-op's biggest attractions. We are working diligently to add new offerings and to increase the diversity of our offerings. We are including more gluten free, vegan and vegetarian choices, increasing the amount of organic ingredients continuing to have your favorites! If you haven't checked out our deli in a while we encourage you to!

We are excited to introduce some new programs that will benefit your health and your wealth!

Our Co-op Basics program highlights our Field Day brand. This brand is an all organic brand that is now available at AMAZING EVERYDAY prices! The product line continues to grow, watch for the purple signs!

We are also launching our Harvest Moon Fresh deals. These will focus on our fresh departments (deli, produce, meat & cheese). They will run for 7 days and will be great products at AMAZING prices! These will be emailed to you every Wednesday morning!

coop[™]
basics

fresh deals

