



2019 ANNUAL REPORT

2019 Valley NATURAL FOODS™ ANNUAL REPORT

HIGHLIGHTS



LETTER FROM THE CEO & BOARD

NICK SEEBERGER & MIKE JENSEN

What a difference a year can make! In the last fiscal year (July 2018 – June 2019), we built an 8,200-square-foot addition and remodeled the entire sales floor of our store, opening up the store and growing most of our departments so our owners have access to even more local and organic foods and wellness products. The expansion could not have occurred without the vision of our board, the hard work of our staff, the support of our vendors and our member-owners' continued support. After the completion of the expansion, there is a buzz in the store as our aisles are filling up and our sales are growing again.

We conducted a market study and worked with National Co-op Grocers to develop our expansion year budget. Sales for the year were softer than expected at \$14,150,508, as we had planned for ~\$15,250,000. We attribute the difference to a few factors, one being a later start to the expansion project than planned, meaning a greater impact during the fiscal year. Our market study numbers appear to have been overly optimistic even when we discounted them to be conservative with our projection. Competition for food dollars remains intense with more and more nontraditional retailers getting into grocery. We planned for a loss of ~\$1,300,000 this year with \$830,000 of that loss being on the sale of the Valley Natural Meats property, \$110,000 in operating losses and the rest of the loss driven by expansion costs and interest expense from our project loans. At the end of the fiscal year, we had losses of \$2,169,073.

The reason our loss exceeds our budgeted loss is related to how we are handling the combining of the Valley Natural Meats and Valley Natural Foods financial statements. \$881,000 in Valley Natural Meats operating losses on our other income/other expense line was unplanned for in the last fiscal year. This additional loss does not have an impact on our cash position as all operating losses associated with Valley Natural Meats occurred in the previous fiscal year. We have high confidence in our cash position and the balance sheet statement and that the performance of the previous year is not a financial threat to the co-op. We are having a full audit conducted and if this leads to a

material change in the reports presented, we will make that information available to co-op owners. More information on financial performance is available later in the Annual Report.

As we performed better than budget when considering performance without the impact of combining the Valley Natural Foods and Valley Natural Meats financial statements, the board declared a 4 percent dividend on all shares of Class C stock in July. Class C shares are investment shares in the co-op that have a \$100 par value. We sold the shares as part of our capital campaign to fund the expansion. Thank you to all our investors.

VNF operates Valley's Own Bakehouse, a gluten-free wholesale bakery operating a few miles from our store. Valley's Own grew 9 percent in the last year, coming in at nearly \$489,000 in sales. This was our first full year of sales since rebranding from Down in the Valley Bakehouse to Valley's Own (VO) Bakehouse. The entire line of Valley's Own products is available in the Valley's Own freezer and on the shelves at VNF.

In May 2019, Valley Natural Foods (VNF) sold our property and building located in Northfield township that previously housed our subsidiary, Valley Natural Meats (VNM). VNM was our foray into meat processing with a goal of providing high quality, locally raised cattle, sheep, and hogs to small grocers and restaurants. VNM operations proved to be financially unsustainable, and we closed operations in January of 2018. We worked with Blue Water Properties of Northfield as our broker to sell the property. The cash from the sale of VNM was used to pay down debt incurred during our expansion. We had a loss on the sale of about \$830,000 and an additional operating loss of \$881,000 we had carried over to VNF's books that are being accounted for in this year's financials.

Looking forward, we are working hard to keep improving the experience for the customers of the co-op. In August, we undertook a major reset of our grocery shelves to create a more intuitive flow and shopping experience. We also began work on transforming our teaching garden into a patio with a demonstration pollinator



Nick Seeberger,
CEO



Mike Jensen,
Board President

garden. In addition, we are installing an electric car-charging station near the front of the store for customers who choose to drive electric. All these activities have been taken in support of our mission:

Valley Natural Foods Co-op works in partnership with the South Metro community to support health and wellbeing through education and expertise in local, sustainable food and wellness services.

Thank you for your support and patronage of your co-op. We look forward to meeting your needs for good food and community in the coming year.

CO-OP COMMUNITY FUND

COMMITTED TO SUPPORTING EDUCATION

In 2005, Valley Natural Foods was selected to sponsor a Community Co-op Fund. A Co-op Community Fund (CCF) is an endowment fund wherein the interest earned each year is donated by the sponsor—in this case Valley Natural Foods—to nonprofits and/or cooperatives in their community. Our goal is to grow this fund at a minimum of \$5,000 a year while maintaining and growing our existing community outreach.

The fund is administered by the Twin Pines Cooperative Foundation (TPCF). The foundation provides an avenue to grow funds, and also contributes to the growth and creation of cooperatives. Including Valley Natural Foods, there are more than 45 sponsor food co-ops across the nation. TPCF was organized in 1964 as a nonprofit founded to inform the public about cooperatives, strengthen cooperative organizations and develop cooperative models.

TPCF/CCF provides more funding to cooperative development organizations in the United States than any other cooperative organization, financing the development of cooperatives in all 50 states. Every dollar invested by the TPCF/CCF program creates at least four dollars of bank financing. The \$4 in assets held by TPCF/CCF are invested only in cooperative development organizations and, at a 12-1 leverage, TPCF/CCF creates \$48 million of other funds for the development of mainly food co-ops.



MIDWEST FOOD CONNECTION

This year, Valley Natural Foods has chosen to contribute the interest from its CCF, \$12,317, to Midwest Food Connection (MFC). The co-op will also contribute an additional \$12,000 of its own money—a total of more than \$24,000—to support MFC in its mission to teach school children about healthy and sustainable food.

MFC brings professional food educators into classrooms to teach lessons about cooking, gardening and healthy eating. The funding from Valley Natural Foods will go directly toward funding educational programming at our nine target schools in the South Metro: Greenleaf, Westview, Echo Park, Southview, Thomas Lake, Gideon Pond, Sky Oaks, Christina Huddleston and Orchard Lake.

MFC was founded in 1993 by a group of educators who wanted to bring natural foods education to a broad range of schools in the Twin Cities area. Over the next two decades, the program continued to grow and flourish, reaching more schools in different areas of the greater metro.

MFC instructors work with schools to provide students with opportunities to study and taste natural and organic foods. They also strive to create an understanding in children of the origins and traditions of regionally produced food and teach them about the methods and benefits of sustainable agriculture.

www.midwestfoodconnection.org



Midwest Food Connection, a nonprofit educational organization based in Minneapolis, Minnesota, seeks to empower elementary school children to make healthy and responsible food choices. The organization has developed a curriculum that provides children with opportunities to study and taste natural, local, and organic foods, as well as learn about the benefits and methods of sustainable agriculture.

96

SPONSORED
LESSONS

43

CLASSROOMS
VISITED

1,051

STUDENTS
TAUGHT



Funding and donations from Valley Natural Foods allowed Midwest Food Connection to visit nine target elementary schools in the South Metro including:

- Christina Huddleston
- Echo Park
- Gideon Pond
- Greenleaf
- Oak Ridge
- Orchard Lake
- Sky Oaks
- Thomas Lake
- Westview

SECOND GRADERS VISIT VALLEY NATURAL FOODS

Westview second grade classes continued their tradition of visiting VNF on a field trip this spring, in partnership with Midwest Food Connection. They enjoyed an outdoor scavenger hunt, learning about different native bugs, planting with Dakota County Master Gardeners in the community gardens and sampling local produce with VNF staff.



EXPANSION

A YEAR IN REVIEW

Valley Natural Foods has much to celebrate this year, starting with the completion of the 8,200-square-foot expansion and remodel of our store.



The new store looks beautiful, and we hope it is a more accessible and welcoming space in which to shop. It is also our wish that Valley Natural Foods be a place dedicated to education and community. We now have more room for products from local farmers and producers, classes in our Education Room, and events in our expanded seating area and outdoor teaching gardens. With the growth of the physical store, we also grow the impact the co-op has in the community, be it through our Register Round-Up program (see page 8) or our contributions to local nonprofits and schools.



BEFORE AND AFTER



Deli kitchen and production areas increased by 3,600 square feet with an additional 1,100 square feet of retail space. This allows for a wider variety of hot and



ready-to-eat housemade meals. The drive-thru coffee and juice bar was also remodeled and offers a selection of coffees, juices, smoothies, and smoothie bowls.



The new classroom space was constructed where the salad/hot bar were previously located. The room features state-of-the-art appliances with a more commu-



nal atmosphere. The Education Room is dedicated in honor of Susan McGaughey, for her 37 years of service and ongoing dedication to education.



Larger service cases and an additional 12 feet of shelf space was added to the Meat & Seafood Department.



This allows us to offer our guests a number of new value-added offerings, fresh seafood and local cuts.

FINANCIAL STATEMENTS

INCOME STATEMENT

Fiscal Year 2019 ended June 30, 2019. Sales decreased from FY18 to FY19. This decrease was primarily driven by the disruption caused by the remodel. Continued competitive market pressure also factored into performance.

COMBINED	FY2019	FY2018	% CHG
Revenue (Net)	\$14,150,508	\$15,452,606	-8.43%
Cost of Goods	8,694,097	9,566,613	-9.12%
Gross Profit	5,456,411	5,885,993	-7.30%
Labor	3,692,804	3,803,003	-2.90%
General & Administrative Costs	2,031,855	2,006,806	1.25%
Operating Costs	5,724,659	5,809,809	-1.47%
Operating Income	(268,248)	76,184	
Other Income/Expenses	(1,900,825)	(64,089)	2,865.91%
Income Before Taxes	(2,169,073)	12,095	
Income Taxes	-	2,075	
Net Income	(2,169,073)	\$10,020	-21,747.44%

Our losses are driven primarily by the sale of the Valley Natural Meat plant and the loss we took on the sale. Operational losses were also significant but within what was planned due to the disruption of the expansion.

VNF	FY2019	FY2018	% CHG
Revenue	\$14,150,508	\$15,142,877	-6.55%
Cost of Goods	8,694,097	9,203,571	-5.54%
Gross Profit	5,456,411	5,939,306	-8.13%
Labor	3,692,804	3,642,693	1.38%
General & Administrative Costs	2,031,855	1,812,296	12.11%
Operating Costs	5,724,659	5,454,989	4.94%
Other Income/Expenses	(1,900,825)	25,013	-7,699.35%
Net Income	\$(2,169,073)	\$459,304	-572.25%

VNM	FY2019	FY2018	% CHG
Revenue		\$309,729	-100.00%
Cost of Goods		363,042	-100.00%
Gross Profit	-	(53,313)	-100.00%
Labor		160,310	-100.00%
General & Administrative Costs		194,510	-100.00%
Operating Costs	-	354,820	-100.00%
Other Income/Expenses		41,151	-100.00%
Net Income	-	\$(449,284)	-100.00%

BALANCE SHEET

Retained earnings dropped due to the loss on acquisition of VNM assets, loss on the sale of the VNM facility and operating losses during the year. Cash dropped due to the expansion.

COMBINED	FY2019	FY2018
Cash	\$1,922,365	\$2,309,731
Inventory	596,518	475,403
Prepaid Expenses/Current Receivables	145,680	222,628
Current Assets	2,664,563	3,007,762
Property & Equipment, Net	9,420,128	4,542,888
Construction in Progress	38,103	1,183,181
Equity in Other Co-ops	347,075	329,982
Other Receivables	290,097	263,282
Total Assets	12,759,966	9,327,095
Current Liabilities	1,038,138	1,206,642
Long-Term Debt	5,048,099	208,716
Total Liabilities	6,086,237	1,415,358
Member Equity	5,698,161	5,672,560
Retained Earnings	975,568	2,239,177
Total Equity	6,673,729	7,911,737
Total Liabilities & Equity	\$12,759,966	\$9,327,095

VNF	FY2019	FY2018
Cash	\$1,922,365	\$2,272,938
Inventory	596,518	470,131
Other Current Assets	145,680	3,185,987
Current Assets	2,664,563	5,929,056
Property & Equip., Net	9,458,231	3,163,249
Other Assets	637,172	1,096,512
Total Assets	12,759,966	10,188,817
Current Liabilities	1,038,138	697,712
Long-Term Debt	5,048,099	708,716
Total Liabilities	6,086,237	1,406,428
Member Equity	5,698,161	5,672,561
Retained Earnings	975,568	3,109,828
Total Equity	6,673,729	8,782,389
Total Liabilities & Equity	\$12,759,966	\$10,188,817

VNM	FY2019	FY2018
Cash		\$36,793
Inventory		5,272
Other Current Assets		4,583
Current Assets	-	46,648
Property & Equip., Net		1,505,860
Other Assets		-
Total Assets	-	1,552,508
Current Liabilities		8,930
Long-Term Debt		1,864,229
Total Liabilities	-	1,873,159
Member Equity		555,000
Retained Earnings		(870,651)
Total Equity	-	(320,651)
Total Liabilities & Equity	-	\$1,552,508

FINANCIAL STATEMENT CONT...

CASH FLOW

As expected, Cash Flow was a negative for the year due to our investments in the expansion and expected operating losses.

COMBINED	FY2019	FY2018
Net Income	\$(2,169,073)	\$10,021
Depreciation & Amortization	266,352	271,548
(Increase)/Decrease in Inventory	(126,387)	33,068
(Increase)/Decrease in Receivables	1,942,543	674
Gain/Loss on Equipment	-	(3,667)
Deferred Income Tax	-	-
(Increase)/Decrease in Assets	1,097,764	(23,181)
Increase/(Decrease) Current Liabilities	161,749	(139,527)
Cash Flow from Operations	1,172,948	148,936
FROM INVESTING		
Increase/(Decrease) in Fixed Assets	(6,561,335)	(1,063,013)
Increase/(Decrease) in Other Assets	459,339	-
Cash Flow from Investing	(6,101,996)	(1,063,013)
FROM FINANCING		
Increase/(Decrease) in LT Liabilities	4,516,082	(716,126)
Increase/(Decrease) in Equity	25,600	-
Cash Flow from Financing	4,541,682	(716,126)
Total Cash Flow	(387,366)	(1,630,203)
Beginning Cash	2,309,731	3,939,934
Ending Cash	\$1,922,365	\$2,309,731

MEMBERSHIP

12,541 TOTAL MEMBER-OWNERS

MEMBERSHIP	FY2019	FY2018
Added	328	378
Terminated	-142	-167
Net Change	186	211

COMMUNITY OUTREACH

FY2019 REGISTER ROUND-UP CONTRIBUTIONS

When you shop at Valley Natural Foods, you will hear an invitation at the end of your transaction: "Would you like to round up?" Customers are invited to round up their purchase as part of our Register Round-Up program. That spare change then goes to local community organizations. As a cooperative, we give back to our community as part of the co-op principle: Concern for the Community. So, when you round up, you are sharing your change with local community projects that improve the health and food security of others. Here were the contributions made during the fiscal year 2019:



**360
COMMUNITIES**
\$1,670.68



**ECHO PARK
ELEMENTARY SCHOOL**
\$1,877.42



**EASTVIEW COMMUNITY
FOUNDATION**
\$1,796.24



**MIDWEST FOOD
CONNECTION**
\$1,185.75



**LAND STEWARDSHIP
PROJECT**
\$1,299.94



**THE OPEN DOOR
PANTRY**
\$1,578.48



**OAK RIDGE
ELEMENTARY PTO**
\$1,342.37



**WESTVIEW FAMILY
NETWORK COMMITTEE**
\$2,287.02



**ANGEL
FOUNDATION**
\$3,386.90



**SUSTAINABLE
FARMING ASSOCIATION**
\$3,023.12



**PARTNERSHIP
GARDEN**
\$3,637.38



**DISTRICT 196
FOUNDATION**
\$3,307.11

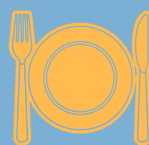
TOTAL CONTRIBUTIONS FOR FY2019: \$26,392.41



WHY DO WE HAVE COMMUNITY DINNERS?

As a co-op, we have a greater responsibility and investment in our community as a whole. We exist to meet the needs of our community in a space where people can gather and everyone feels welcome.

Food is a universal language; everyone needs to eat. But for us, it goes beyond meeting our basic needs and stretches to giving our community nutritious, local, sustainable food at a price that is approachable to everyone. That is why we started our \$3 Community Dinners in June of 2018 at Valley Natural Foods. It's about fostering relationships, breaking down barriers, and giving back to our community in a place where honest relationships and good health are nourished.



1,799
meals served to our
community

20

vendor partnerships



100%
compostable
materials used



Valley NATURAL
FOODS™