

Annual Report

To the Member-Owners | 2014-2015 Fiscal Year



LINDEN HILLS
CO-OP
GROCERY & DELI

2014-15 Annual Report

General Manager's Report

Luke Schell | General Manager

State of the Cooperative | During the fiscal year, July 1, 2014 to June 30, 2015, we braced for the most challenging year since we relocated to Sunnyside Avenue 5 years ago. We faced four major events from July 2014 through October 2015. These events would continue to beleaguer us until the year's end. In July we began to feel the impact to our sales from the opening of new Lakewinds Co-op in Richfield. Jerry's Foods remodeled their Edina store which is located approximately 2 miles southwest of our location. France Avenue was closed just 3 blocks north of us from mid-August to mid-October for the sewer separation project. Finally Lunds and Byerly's opened their relocated store at 7171 France Avenue located 3.8 miles south of our location. To many retailers this would be a devastating chain of events. However, we are not a typical retailer. Thanks to our member-owners, board, staff and management team, we rose to the challenge. We were able to minimize the sales impact through our member-owner dedication to the co-op that accounted for 79% of our store sales, continued great customer service, creative marketing plans, and expense cutting practices that would result in a very successful, profitable year. Sales were down only 1% compared to last year and 4% below plan. Total expenses were 5% under plan and 1% under last year. Net income before patronage, profit sharing and taxes was 23% over plan and 32% over last year. Our membership grew over 5% last year. We now have nearly 8,900 member-owners. This is a 71% increase during the past 5 years.

More great news: the board has declared an \$82,295 patronage

dividend for the fiscal year 2014-15 for our member-owners. Just like last year, the dividend will be available at the cash registers October 31st. We will mail out a notice informing member-owners of the rebate amounts each will receive. Member-owners whose rebate is less than \$3 will not receive a notice, but still can redeem their refund at the registers.

We continue to pay back all member loans and serve our debt payments to our other lenders on time. As you recall, back in 2010 Linden Hills Co-op borrowed approximately \$2.8 million dollars for the relocation project. Our member-owners loaned the co-op \$1.5 million dollars and the remaining \$1.3 million dollars was bank and city financing. LHC has repaid \$703,700 of member-owner loans and \$964,000 on the other loans. We are projecting our debt at the beginning of 2018 will be less than \$200,000 if all things remain constant. We have cash reserves of \$1.4 million dollars which will allow us to operate the business and pay back all our debt on time.

The upcoming year will once again present new competition and challenges. On October 6th, the Seward Co-op opened their second location on 38th Street. Other major retailers are eyeing our market to open their natural and organic stores. We have to remain vigilant in controlling expenses and improving our store offerings in order to compete. As we near our 40th Anniversary in March 2016, we promise to continue to explore smart, responsible growth opportunities and look forward to another 40 years.

See you at the co-op.

Charitable Contributions | Together we make a difference.

70,328
green patches

=

70,328
bags saved

=

\$3516.40
donated to
Fruits of the City +
Climate Generation

\$42,338.72
total donated during 2014-15

we donated to
71
local, non-profit
organizations

\$19,500 donated to
Midwest Food Connection
who taught

86
lessons
reaching
1,119
students in

6
Linden Hills
community schools

Board President's Report

John Hatzung | Board President

2015 has been a year of quiet movement for the board. In 2014 the board settled on four areas of focus: growth, community, local product and core business. These served as the paths of our pursuit of our ends policies and a way to guide Luke in his work. With this focus came recognition of the co-op's challenges in the form of competition and a realization that change is constant and imperative. Our work thus has taken the form of preparation for change, discovery of new and stronger connections with our community, and exploration of alliances and paths to becoming an even better natural food store.

Close monitoring of the evolving local and national markets and their effect on co-op sales and ownership has provided the board a fresh perspective on the potential impact of changing our current strategic vision. Preparing for change has taken the form of attaining a better understanding of the fiscal challenges and capabilities of the co-op and the changing trends and characteristics of the market sector. If and when an opportunity for change reveals itself, the board has the confidence and knowledge to act— or not — before the window closes.

The board has explored ways and opportunities to better connect with our current owners and shoppers as well as build relationships with potential shoppers in our community through increased community involvement. In addition, the board continues to emphasize the importance of better understanding our owners, shoppers and potential customers through the use of the growing data available about our community, how our customers shop and why they choose Linden Hills Co-op.

Maintaining and growing relationships with local farmers and producers continues to be a strong priority of the board. Staff exceeded all expectations this year with record amounts of locally

sourced product. Additionally, the board has worked hard to strengthen ties with cooperatively-owned natural food producers. Throughout the year, the board discussed, debated and carefully considered a number of issues, including GMOs. The conflicting impacts of important topics such as sustainability, food justice, and owner and customer needs made decision-making complex and difficult, but educational. Throughout this process, we were reminded of the importance of effective communication among the board, the co-op staff, and our member-owners.

As a part of the board's initiative to reflect on core business, the board conducted a self-assessment. We scored our work highest in "creating a welcoming environment" and "professionalism and discipline in each board director's work and following our code of conduct expectations." We scored our work lowest in our "board recruitment, screening and nomination process" and "regularly evaluating our board work." We'll work on the latter. Additionally, the board participated in the 2015 Consumer Cooperative Management Association national conference in Boise, resulting in a new emphasis on organization and continuity and started discussions about how to improve board nominations, elections and organization as well as how better to connect with owners.

In addition to planning for change and increasing community connections, the board oversees our General Manager, Luke Schell. We are incredibly fortunate to have one of the most experienced and foresighted GMs in the co-op community. Luke has made Linden Hills Co-op one of (if not the) most professional food co-op operations in the nation. He's a recognized, active leader in our local co-op community. He has embraced the board's strategic vision and is making it real.

Your board remains passionate about the mission of Linden Hills Co-op and is grateful for the opportunity to serve one of the most enlightened communities.

Linden Hills Co-op Ends Policies

1. Provide and promote healthful choices for our members and shoppers.
2. Provide, use and promote earth-friendly sustainable products.
3. Encourage activism on sustainability, health and nutrition-related issues.
4. Build community within Linden Hills and neighboring communities.

2014-15 Financial Report

Board Treasurer's Report

Alex Slichter | Board Treasurer

It has been a year of mixed financial results. Sales of \$13.4 million declined modestly (1%) compared to last year. New competition and the extended closure of France Avenue were challenging.

Management and staff persevered and their diligent attention to expenses resulted in net income of just over \$100,000, almost equal to our amazing prior year.

The co-op's cash flow is healthy. This year we repaid another \$341,600 of member loans reducing our member loan balance to \$829,500 compared with our initial borrowings in 2010 of \$1.5 million. We have paid back nearly \$1 million in bank loans and our outstanding bank debt is just over \$300,000 at year-end.

Each year the board reviews the viability of a patronage dividend. The Board is happy to declare a patronage dividend for the fourth consecutive year. This year we will return \$82,295 to our member-owners through a combination of cash and member stock.

The upcoming year will be challenging. Competition remains tough. We continue to identify opportunities to keep our co-op fresh and competitive while remaining true to the needs of our member-owners. Thank you for your commitment to Linden Hills Co-op.

Balance Sheets

ASSETS	June 30, 2015	June 30, 2014
Current Assets	\$ 2,130,325	\$ 2,274,182
Property and Equipment	2,338,578	2,585,699
Other Assets	450,692	410,042
TOTAL ASSETS	\$ 4,919,595	\$ 5,269,923
LIABILITIES		
Current Liabilities	\$ 1,502,008	\$ 1,460,334
Long Term Debt	585,965	1,178,211
Other Liabilities	119,170	181,570
TOTAL LIABILITIES	\$ 2,207,143	\$ 2,820,115
EQUITY		
Membership/Ownership Stock	\$ 661,700	\$ 636,860
Class B Stock	697,235	560,355
Retained Earnings	1,353,517	1,252,593
TOTAL EQUITY	\$ 2,712,452	\$ 2,449,808
TOTAL LIABILITIES & EQUITY	\$ 4,919,595	\$ 5,269,923

Statement of Income and Retained Earnings

	June 30, 2015	% of Sales	June 30, 2014	% of Sales
GROSS SALES	\$ 13,429,748		\$ 13,619,398	
Less: Member Discounts	\$(119,547)		\$(133,396)	
NET SALES	\$ 13,310,201	100.00%	\$ 13,486,002	100.00%
Cost of Goods Sold	(8,392,379)	-63.05%	(8,448,866)	-62.65%
GROSS PROFIT	\$ 4,917,822	36.95%	\$ 5,037,136	37.35%
Operating Expense	\$ 4,665,378	35.05%	\$ 4,690,089	34.78%
OPERATING INCOME	\$ 252,444	1.90%	\$ 347,047	2.57%
Other Income	\$ 59,867	0.45%	\$ 99,599	0.74%
Other Expense	(71,635)	-0.54%	(103,704)	-0.77%
Patronage Refund Expense	(82,295)	-0.62%	(182,507)	-1.35%
Provision for Income Taxes	(57,457)	-0.43%	(58,073)	-0.43%
NET INCOME	\$ 100,924	0.76%	\$ 102,362	0.76%

