

2010-2011
Board of Directors



New Store



Debbie Warne-Jacobsen



Bridget Stromberg



Mary Chernugal



Dennis Montgomery



Old Store



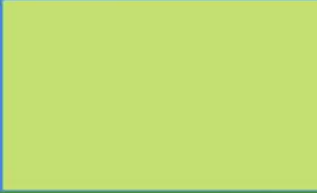
Judy Boorman



Mary Overlie



Dennis Montgomery



HARMONY CO-OP GRAND OPENING



ANNUAL BOARD OF DIRECTORS REPORT TO OUR MEMBER-OWNERS

Dennis Montgomery, Chair

In last year's Annual Report to the Membership, we said Harmony's new store was "set to become a reality". This year it is. The store we've been talking about and working toward for so long became a beautiful, successful reality this summer. A year ago we were still planning and setting the stage; now we were settling into this wonderful new reality.

A YEAR OF ACCOMPLISHMENTS

As member-owners, nearly a thousand of us can very proudly say: "It's our store." The experience of shopping the wide aisles, trying new dishes from the deli, and visiting with friends in the comfortable dining area are tangible evidence of Harmony's year of accomplishments. Accomplishments that were made possible by the investments of our member-owners, the hard work and diligence of staff, board, and volunteers, as well as the enthusiastic support from the community-at-large. This is our store; your store; a cooperatively-owned community resource.

BOARD DEVELOPMENT

During this past year, we reluctantly accepted the resignations of three board members: John Knisley, John Wilder, and Erica Johnson. However, we were excited and enthused to have Judy Boorman and Bridget Stromberg join myself, Debbie Warne-Jacobsen, Mary

...made possible by the investments of our owners the hard work and diligence of staff, board, and volunteers, as well as the enthusiastic support from the community-at-large.

Chernugal, and Mary Overlie on the board. Together, we have addressed a range of priorities. Biggest on the list was continued attention to financing the expansion. This involved sustaining the member loan campaign, exploring and researching the development of "Class C" stock in the cooperative, working with local banks, the Headwaters Regional Development Commission, and the City of Bemidji.

We were able to refine Harmony's Ends Policy Statements, an important step in focusing our efforts for the future. We resumed our on-going duty to monitor, review and develop general policy governing the co-op's operations. A major focus was a sustained effort to

increase and improve communication between the Board of Directors and the member-owners it represents. These efforts involve the creation of a new web-site, changes in the newsletter, and postings in the store, among other activities. A major accomplishment in this effort was the creation of the role of Board Coordinator.

LOOKING TO THE FUTURE

Aside from our routine policy work, the Board of Directors will work with management to create a strategic plan for the next three to five years. In addition to assuring the success and profitability of the new store, we will focus on ways to insure adequate compensation and benefits for our employees. We must continue to encourage customers to become new member-owners and for all member-owners to continue investing in their cooperative. We will also need to develop a strategic plan for our educational programs, the community kitchen, and other mission-related endeavors. Communication with member-owners will be an essential.

The past year has been incredibly exciting, but the excitement hasn't ended with our move to the beautiful new facility; now comes the excitement of beginning a new era for Harmony, and we're all a part of it.



GENERAL MANAGER'S REPORT

Greg Gasman, General Manager

Some days it's hard to believe that we've really made the move, that we really did all of that. Every morning, on my way to work, I drive by the old location: *Do I miss it?* I'd be lying if part of me didn't want to still be there. It was comfortable. However, one of our biggest conflicts at the old location was 'people don't know we even exist'. We tried so many different ways to shed some of **all** co-op's myths of existence – you have to be a member to shop there, that's the hippie store, they only sell vitamins, herbs and bulk. So I keep driving down 3rd Street and then there it is. A smile leaps onto my face. We put it right smack in the heart of Bemidji's downtown . . . the Big Green building with the beautiful green space and patio area. You, me, the staff; we all made it happen and we deserve the right to be called Bemidji's Downtown Grocery Store. Finally, people know where we are. They can't miss us.

EXPANSION

In 2011, we went from 3,000 total sq. ft. with 1,600 sq. ft. of retail to 10,000 sq. ft. with 4,600 sq. ft. of retail. Above and beyond that we have a wonderful partnership with KBXE, our new lessee of an additional 2,500 sq. ft. We still own our former building as well. We're hoping to lease the building – if it doesn't take too long to find the right tenant.

FACTS

We've added 96 new member-owners since we opened our doors on June 10th. We typically add that many in a year's time. Here are some more interesting statistics:

Prior to moving into our new space our member/owner sales were 61% of our total sales. Since we've moved into our new space our member/owner sales are only 51.7% of our total sales. Since we've moved into our new space we've increased our total store sales by 73.7%.

In the *first 9 months* of 2010, our member sales were: \$551,320 non-member: \$352,484

In the *first 112 days*, in our new space, our member sales were: \$408,332 non-member sales: \$381,479

A VISION TO A REALITY

So, did the new space turn out the way you had hoped?

Being part of the original planning with Colleen, I could see the vision; but when I stood inside, in the dirt, last fall, after we had totally gutted the entire building – I was slightly freaked out. I spent the winter following the contractor and subs around hoping everything would stay on budget, and does that really go there?, really, that's what we asked for?, and when can the equipment be delivered?, are we going to open on time?, what's wrong with the floor?, this is brand new equipment, right? Thank goodness Colleen, our amazing Management Staff, and the rest of the staff kept the former location humming while they were training to get ready for a slightly different pace. I say 'slightly' in jest. In other words, are you kidding, I love the new building! It has everything we asked for and more. We didn't hold back to get the best of what we wanted. We have enough room to expand within ourselves – the next couple of times.

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Colleen Bakken & Greg Gasman at the ribbon cutting of the new store

WHAT'S NEXT

Our education/community kitchen is set to open later this fall. Not only will we be offering more classes with more space for interested partakers, but we will have a kitchen that community entrepreneurs will be able to lease, at a reasonable price. As part of the venture, local small business resources will help them develop a business plan, attain proper certification and licensing, and find a marketing approach suitable for their product. Their product could also end up being for sale on our shelves.

GENERAL MANAGER'S FINANCIAL REPORT

2010 Financials	2010	2009	Difference
SALES	\$1,245,621	\$1,094,834	13.8%
COST OF GOODS	\$798,519	\$708,171	12.8%
OPERATING EXPENSES	\$420,684	\$375,889	11.9%
NET INCOME	\$24,062	\$11,425	110.6%
TOTAL ASSETS	\$969,374	\$268,566	260.9%
CASH & CASH EQUIVALENTS	\$223,439	\$25,041	792.3%

So far in 2011, our sales are far above of projections. Unfortunately, along with an expansion and extreme sales growth come additional expenses that are sometimes harder to predict. Our sales growth YTD is at a 33.7% increase. Since we moved into our new location on June 10th, we've had a 73.7% increase in sales, over last year, at this time. This is a list of some of the additional expenses that have occurred:

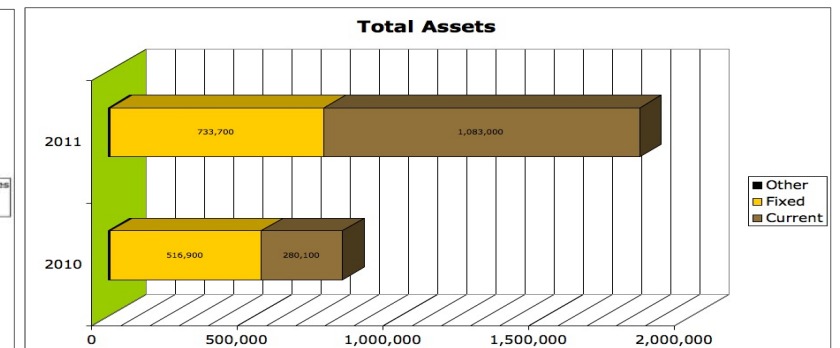
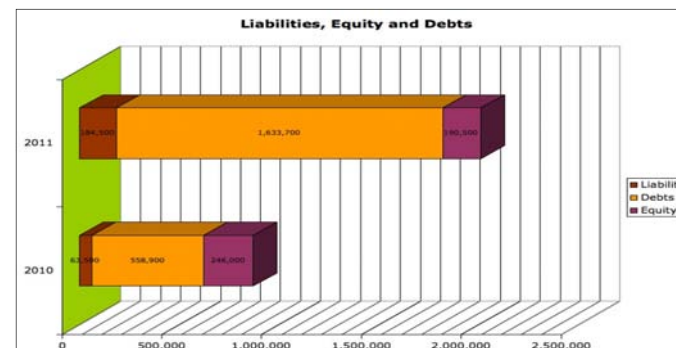
11/'10 YTD as of: 08/31/11	2011	2010	Difference
SALES	\$1,072,431	\$802,298	33.7%
COST OF GOODS	\$674,831	\$525,089	28.5%
OPERATING EXPENSES	\$507,765	\$270,838	87.5%
NET INCOME	-\$109,288	\$9,792	-1016.1%
TOTAL ASSETS	\$1,808,997	\$835,329	116.6%
CASH & CASH EQUIVALENTS	\$54,473	\$226,294	-315.4%

Payroll/employee benefits/health insurance currently at 30%: this is way too high for a store our size, but this is also an area that we can work on to correct. All of our new equipment brought a 268% increase to our Depreciation line. Even though our equipment is as efficient as we could afford – our Utilities line increased by 114%. Our media blitz to bring in new faces, which I believe worked, cost us an additional \$18,000. We own a lot of property now; our property taxes went up 765%.

TREASURER'S REPORT

Mary Overlie, Treasurer

Since the close of 2009, your co-op assets have increased 700%! We can feel the dramatic change as we browse the roomy new aisles investigating the latest shipment of jicama, the blue cheese aged in the caves of southern Minnesota, or the wide new selection of tasty baby food. However, you'll notice our equity has decreased about 22% over this same period of time, increasing our debt to equity ratio. This is due to the operating loss we projected to be part of our first year of expansion. In order to protect our bright, shiny, robust new assets, we as members need to continue to support our store in two critical ways. One: reinvesting at the new member-owner share of \$120 and Two: taking advantage of our preferred stock investment opportunities. Member equity is one of the only tools co-ops have to generate capital unlike other non-profit and for-profit enterprises."



These graphs represent current data from July 31, 2011