

2015 ANNUAL REPORT BLOOMINGFOODS

Your Community Owned Grocery Since 1976



EAST

**NEAR
WEST
SIDE**

**ELM
HEIGHTS**

**IVY
TECH**

COOPERATION AMONG CO-OPS

6TH CO-OP PRINCIPLE

The 6th international principle of co-operation sets co-ops apart from other types of businesses. As a cooperative business, Bloomingsfoods is very connected with co-ops across the country. Our Regional Co-op Development Program provided direct development assistance to operating co-ops and start-up initiatives, and we partnered with Indiana Co-op Development Center to host the 6th annual Up and Coming Food Co-op Conference, attracting over 150 participants from 41 co-ops in 20 states. Bloomingsfoods maintains \$236,785 equity and deposits in other co-ops. Last year we increased our deposits with NCG by nearly \$45K in order to offset our increased shared-liability risk. NCG is a business services cooperative for U.S. retail

food co-ops, representing 148 co-ops, with over 200 stores in 38 states. 1.3 million co-op members strong, NCG combined annual sales are over \$1.8 billion. NCG helps unify natural food co-ops to optimize operational and marketing resources, strengthen purchasing power, and ultimately offer more value to natural food co-op owners and shoppers every-where. Bloomingsfoods past growth and success is in no small part attributable to its participation as a member of NCG, whose safety net support resources proved of particular value last year. NCG's support of Bloomingsfoods will help us stay viable and continue to be a resource to other co-ops and to our larger community.

EQUITY & DEPOSITS IN OTHER CO-OPS

National Co-op Grocers	\$201,794
Equal Exchange	\$19,848
Frontier Co-op	\$8,643
Co-op Lending Institutions	\$5,500
	\$235,785

CONCERN FOR COMMUNITY

7TH CO-OP PRINCIPLE

Bloomingsfoods allocated over \$46K in community partnerships and donations last year, as well as substantial in-kind labor. The list of organizations we supported is long and includes many familiar names, such as Mother Hubbard's Cupboard, Hoosier Hills Food Bank, Community Kitchen, Middle Way House, Bloomington Community Farmers Market, Bloomington Community Orchard, Sycamore Land Trust, Local Growers Guild, Lotus Education and

Arts Foundation, and the Buskirk-Chumley Theater. Bloomingsfoods Commissary Kitchen produced an estimated 38,578 kids meals for the South Central Indiana Head Start Program. Our co-op has a measureable Local Economic Impact. For every \$1.00 spent at Bloomingsfoods last year, an estimated \$0.425 was returned directly to the local economy through purchases from local vendors and service providers plus employee wages. Next year we are looking forward to updating some of our programs, including a Positive Change round-up program, a volunteer Ambassadors program, and exploring preferred food co-op practices supporting limited-income discount programs.

COOPERATIVE VALUES

Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others. (ICA, 1995)

PRESIDENT'S REPORT

BY CAROLINE BEEBE

The past year has been tumultuous! Bloomingfoods has experienced a level of participation and change unprecedented since our inception in 1976. Our success is now our challenge. After almost 40 years of providing healthy food and service to our community, the local food cooperative movement has helped grow the market share so that mainstream grocers have realized the value of providing healthy food options. Our challenge is to help our members and customers be ever more discerning in their food choices, to provide even better quality choices, and to hone our cooperative business model to be competitive with our mainstream imitators.

In May, at the request of the board, National Cooperative Grocers (NCG) visited Bloomingfoods for a two-day external review site visit. Their report outlined three scenario strategies, each of which ultimately would result in Bloomingfoods surviving and prospering in its newly competitive environment. All three strategies involved a major reorganization and reallocation of resources.

June brought the resignation of our long serving general manager. The board contracted with one of the consultants from NCG to serve as Acting GM to begin implementation of the NCG scenarios. For the past 40 years we have been organized for growth; the new organizational structure and accountability systems would support financial stabilization from the Elm Heights expansion, reduce our overhead, and slowly turnaround our recently declining sales.

Since the last annual meeting, the board has lost three directors due to resignations, with one replacement from a January special election. This was followed by the board responding to owner member requests for more information and input by hosting three member forums, as well as an extremely well-attended Open House

Meanwhile the board began meeting more often to begin addressing policy changes that would support our new environment. We formed the Owner-member Linkage Committee, initiated a year-long self-monitoring process, established more rigorous and systematic methods for determining policy compliance, and created policy changes that would better support our employees and serve our organization for years to come.

2015 BOARD OF DIRECTORS

Caroline Beebe, *President - 2015*

Danielle McClelland,
Vice President-2015

Lauren McCalister, *Treasurer - 2017*

Kristina Wiltsee, *Secretary - 2016*

Dedaimia Whitney - 2016

OUR ENDS

Because of Bloomington Co-operative Services (dba Bloomingfoods Market & Deli), people in Bloomington and South Central Indiana will have:

1. A market for local, organic and healthy products, meeting the needs of consumers and producers
2. Increased cooperative ownership that strengthens the local economy and community.
3. A model of sustainable, profitable business.
4. An increased understanding of the local food system and its importance.

Last fall our employees formed a collective bargaining unit resulting in a UFCW contract signed this past July. The formation of the Bloomingfoods union has become a rallying point for owner-members and employees alike. Together with our new union partners, we are building the kind of organization we want to be. Our employees are our most valued resource providing frontline service to our membership and our community.

The Board of Directors is responsible for financial oversight, monitoring of the General Manager's performance, and setting the long-term direction of the Cooperative through the Ends: our goals for our organization. As we close this year the board is in the midst of a national search for our new GM replacement, a person who will oversee employees and be responsible for the success of our new environment.

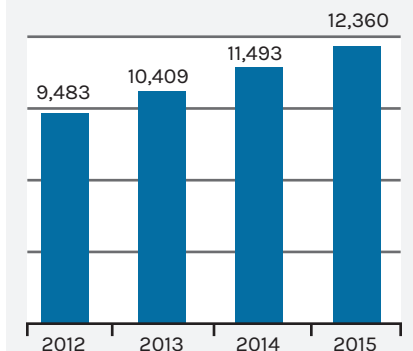
The cooperative business model is a powerful tool that enables

communities to meet local needs, create local employment, and keep wealth circulating within those communities. Our eventual long-term success depends directly on help from our member-owners and this community. If you want to hang on to your cooperative alternative, if you want more of your dollars to stay in Bloomington, do one or all of the following:

1. Go to Bloomingfoods first—make it the first stop on your grocery run. If you are as busy as the rest of us, you may choose to give more of your dollars to the co-op rather than make a second trip down the road.
2. Give us your expertise—we now have the Owner-member Linkage Committee now meeting regularly. If you have skills that might help us (sales, marketing, law, real estate, human resources) come to a meeting and offer your skills.
3. Run for the board—the next year may be the most critical year in the co-op's life. If you are willing to help make some very serious decisions, run for election. To bring yourself up to speed on the issues, start by attending the next board meeting.

With your help we will have another 40 years of providing healthy food and serving our community.

MEMBER-OWNER GROWTH



INTERIM GM REPORT

BY BRAD ALSTROM

FY2015 was for Bloomingfoods a year of challenge and change. The competitive landscape was altered, sales dropped and financial performance suffered, we closed our original Kirkwood location, non-management staff organized a unionization drive and negotiated with management a labor contract, and as the close of the year approached, the co-op underwent a major reorganization under new leadership. But change is good. Bloomingfoods is evolving and adapting in order to become a stronger co-op.

THE COMPETITIVE LANDSCAPE: THEN

Like many other food co-ops across the country, Bloomingfoods saw several years of healthy sales growth with strong performance numbers. The financial health of the organization was very good. The pie was growing and demand seemed insatiable. Yet natural foods still did not represent a large enough segment of food sales, and Bloomington was not big enough a market to attract major competitors. The conventional grocery chains did not yet place the emphasis on natural foods nor pose the competitive threat they do today.

THE COMPETITIVE LANDSCAPE: NOW

The new competitive landscape began taking shape last year. With continued growth in natural and organic, large chain retailers invested heavily in these product lines. “Supernatural” retailers with a strong focus on natural, pushed ambitious expansion plans and built new stores, especially in mid-sized markets where they had not previously gone.

KIRKWOOD CLOSES: Our original Kirkwood location, dating back to 1976, was closed in February after several quarters of poor performance. Our little two-story food co-op, housed in a former carriage-house and located in an alley, served us well for many years. Home to so much of the co-op’s early history, the decision to close Kirkwood was not easy, but was fiscally sound.

UNION ORGANIZES: Internally, staff began vocalizing discontent with co-op management starting September of last year, leading to an organizing campaign by United Food & Commercial Workers Union Local 700. Bargaining unit employees voted in favor of unionizing in November and ratified the labor contract in July. The contract applies to all non-management employees, or roughly 80% of the entire staff, and covers wages, hours, and conditions of employment to be observed by the co-op, the union, and the employees. The overall intent of the agreement is to promote and improve labor-management relations. It’s still early in the learning process, but we are confident this new relationship will help solidify a beneficial partnership between management and bargaining-unit staff and will strengthen our co-op moving forward.

FINANCIAL CHALLENGE: Bloomingfoods acutely felt the effects of Kroger’s remodels and refocus to more natural and organic, as well as the opening of Lucky’s Market on South Walnut in May. The co-op was not sufficiently prepared to fend off the loss of sales to competitors, and our financial performance was challenged as the year progressed. Personnel and other operating expenses became overly burdensome with reduced sales volume. NCG prepared a co-op wide assessment, calling for major organizational overhaul in a short timeline in order to remain fiscally viable.

OVERHAUL STEPS: Recommendations included deep spending cuts across several expense categories, including: (a) reducing marketing expenses and participation in community events and partnerships; (b) consolidating offices and eliminating leases at Kirkwood, Gentry St office, and S. Rogers warehouse; (c) closing/scaling back unprofitable or non-essential parts of the business, including East store garden center, Elm Heights full-service meat counter and coffee bar, our Regional Co-op Development Program, and facilities department; and (d) reorganizing the staffing structure and reducing the workforce by nearly 25%.

GENERAL MANAGER RESIGNS: George Huntington, Bloomingfoods General Manager of 21 years, who oversaw the co-op’s growth from a two store and roughly \$2M operation, to a four store and \$23M operation, resigned June 8, triggering widespread organizational change under new NCG leadership. Soon after, a full staff meeting was held where a new organizational structure and series of layoffs were announced. Within the same month, former Finance Manager, Brad Salmon accepted a position with a California food co-op, and Steve Stroup, former Membership Director, retired.

GENERAL MANAGEMENT TRANSITION

JUNE 2015: Paula Gilbertson, NCG Development Advisor was appointed as Acting General Manager, supported by NCG Chief Operating Office, CE Pugh.

JULY 2015: The board identified Brad Alstrom as Interim GM in-training. Brad coordinated Bloomingfoods Regional Development Program and previously served as GM at Lost River Co-op.

SEPT 2015: The board began national search for permanent GM under

guidance of a national food co-op HR consultant. The search is expected to take at least 3-6 months to ensure a good fit and transparent process.

OCT 2015: Brad Alstrom began as day-to-day Interim GM. Paula Gilbertson continues in hands-on advisor role.

ORGANIZATIONAL STRUCTURE: New key management appointments were made as part of the staffing reorganization.

Senior management team

Mac McLaughlin – Operations
Paul Read – Finance
Jean Kautt – Consumer Services
Keith D Hughes – IT
Patty Steward – HR

Location managers

Meg Torrence – Near West Side
Dan Borders – Commissary Kitchen
Tom Zeta – East
Phil Phillipy – Elm Heights
Rodney Schmidt – Ivy Tech

An additional 25 salaried positions in our stores and business office, plus roughly 160 bargaining unit Clerks and Leads round out the entire staff.

CO-OP STARTS TO REBUILD:

Personnel and other operating expenses dropped significantly in the first quarter of the new fiscal year, improving our cash position. We initiated new promotions programs and regular communications with our member-owners. Declining sales are starting to show improvement. We continue to rebuild the organization across many levels. Financial stability will take time, and preparation for future competition is already underway. Thank you to our entire staff, Board, and advisers for their hard work, and to our members, shoppers, and vendors for all your continued support. With all of your help, Bloomingfoods is turning a major corner toward recovery.

FINANCIAL STATEMENTS

FISCAL ENDING 6/30/2015. DRAFT CPA REVIEWED.

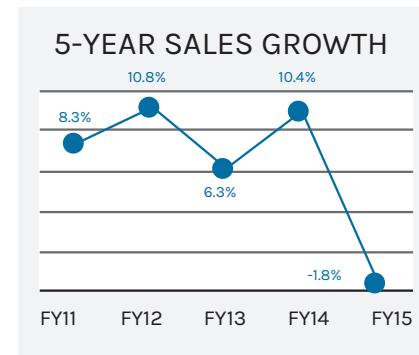
Balance Sheet	FY2015		FY2014	
Current Assets	\$	1,542,372	\$	2,659,294
Fixed Assets	\$	3,781,125	\$	3,989,075
Other Assets	\$	787,456	\$	457,049
Total Assets	\$	6,110,953	\$	7,105,418
Current Liabilities	\$	1,275,696	\$	1,320,683
Long Term Liabilities	\$	2,604,377	\$	2,910,102
Total Liabilities	\$	3,880,073	\$	4,230,785
Member-Owner Shares	\$	1,239,400	\$	1,181,655
Retained Patronage	\$	721,419	\$	721,419
Retained Earnings	\$	270,061	\$	971,560
Total Owner's Equity	\$	2,230,880	\$	2,874,634
Total Liabilities & Equity	\$	6,110,953	\$	7,105,419

Income Statement	FY2015		FY2014		
Gross Sales	\$	23,079,900	100%	\$ 23,491,647	100%
Cost of Goods	\$	14,371,957	62.3%	\$ 14,635,472	62.3%
Gross Profit	\$	8,707,943	37.7%	\$ 8,856,175	37.7%
Personnel	\$	6,688,588	29.0%	\$ 6,532,962	27.8%
Member Discounts	\$	339,116	1.5%	\$ 335,062	1.4%
Operating Expenses	\$	2,620,366	11.4%	\$ 2,574,285	11.0%
Total Operating Expenses	\$	9,648,070	41.8%	\$ 9,442,309	40.2%
Operating Profit (Loss)	\$	(940,127)	-4.1%	\$ (586,134)	-2.5%
Other Income (Expense) & Taxes	\$	238,628	1.0%	\$ 252,147	1.1%
Net Income (Loss)	\$	(701,499)	-3.0%	\$ (333,987)	-1.4%

70% of the co-op's sales were to member-owners in FY15

FINANCIAL REPORT

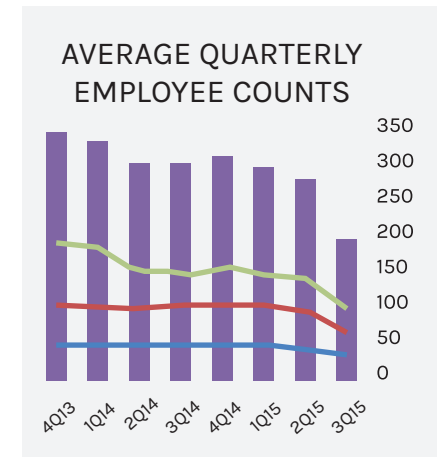
ASSETS: Current Assets decreased by -\$1.1M, primarily due to change in cash position, but also from significant reductions to inventory. **LIABILITIES:** The co-op's total debt obligations as of the close of the year included \$1.4M balance on German American Bank loan, \$50K balance on loan with City of Bloomington, and \$1.3M in member-owner loans, all incurred in the financing of the Elm Heights Neighborhood Store project. The remaining liabilities are from normal course of business including payroll and taxes due. **EQUITY:** Member-Owner Share Equity increased by \$57,745. Equity from Retained Earnings decreased by -\$701,499, the amount of our Net Loss, **INCOME STATEMENT:** Gross Sales were -1.8% below previous year. Gross Margin remained steady. Personnel Expenses increased by 1.2% of sales and Other Operating Expenses increased by 0.4% of sales. Losses were expected for both FY14 and FY15 following completion of the Elm Heights project, but were amplified in FY15 by the combination of declining sales and increasing expenses. Patronage rebates were not distributed due to previous year net losses.



STAFFING UPDATE

The co-op ended the fiscal year with a total of 261 employees, down from 288 the year prior. 49% of employees were part-time hourly, 33% full-time hourly, and 17% salaried. The graph below shows total employee count trended downward starting 2014, with largest drop in part-time. The graph includes 1st quarter of new fiscal year to help illustrate the reduction in workforce that that took effect July 1.

The co-op uses livable wage models to establish compensation rates. As per the co-op's labor contract, a full-time, hourly employee in the collective bargaining unit will start at \$11/hour, receive health insurance and 5-days paid personal leave after 90-days, 10-days paid vacation after 1-year, plus long-term disability, life insurance, and 401K benefits. All employees receive 15% discount on co-op purchases and are empowered to participate in the co-op's business on an operational level.



Legend: top line = part-time hourly
middle line = full-time hourly
bottom line = salaried