

TERRE FOODS

cooperative market

2015 Annual Report to Member-Owners

Contents of Report

A Note about this year's report.....	2
Message from the President.....	2
TFCM Annual Summary of Activities.....	4
Financial Summary Report.....	5
Financial Pro-forma Development.....	7

A Note about this year's report

Thank you for taking the time to request or download the 2015 Annual Report, and for doing your part to stay informed about our co-op's progress towards a brick-and-mortar store. In the past, we have sent this report by US postal service to each member household. These reports were highly formatted, and generously printed for us by one of our member-owners. However, the cost in postage, the time involved in assembling and labeling all reports, as well as the environmental cost of well in excess of 500 large pieces of high-quality paper seemed at odds with our co-op's values. This year, we have opted to instead distribute this report via standard electronic means. We will also make printed copies available to anyone who requests this service, thereby keeping both the co-op's costs and the environmental damage to a minimum. In the interest of making this report as readable as possible on a screen, and easy to print out for anyone who desires to do so, much of the high-end formatting has been shelved in favor of a straightforward document that will print out easily on standard 8.5" x 11" paper.

Message from the President

Submitted by Chris Weber, President of the Board

Embrace the tortoise. That is my mantra. The tortoise is determined, focused, and perseveres through adversity.

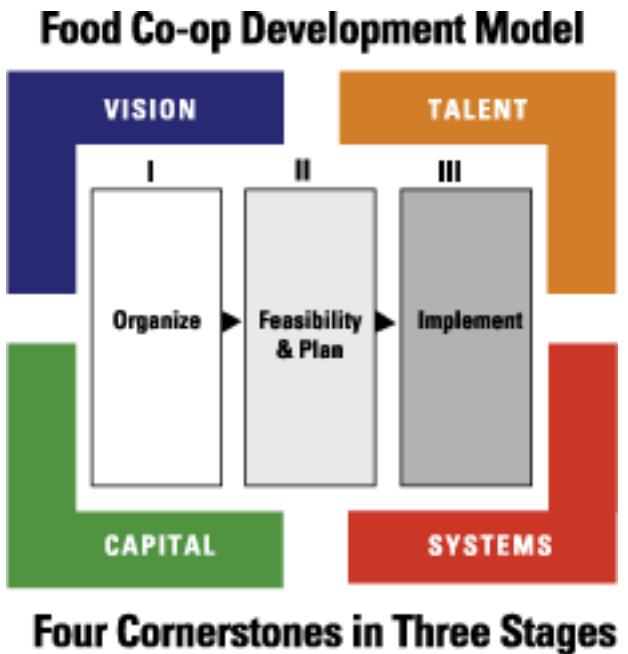
Terre Foods is the tortoise. Our mission to open a store is still the same; we are determined to succeed, focused on the success of opening a physical location for our cooperative, and prepared to persevere.

I do not mean for that to seem distraught or despondent; in fact, by embracing a conservative and focused approach to our ultimate goal, we are better positioned than ever before for a successful transition to a physical home. In the meantime, we are over 700 households strong and growing; with a presence in our community that brings tangible value through community outreach, cooperative values, and member benefits that extend beyond the Wabash Valley to cooperative markets operating across the country.

For our member/owners to better understand the approach we are taking to opening the physical store, I thought I would share some of the process we are following toward that goal. The realities of opening a business of this sort are very different than other business models. In fact, they are foundationally different than other small businesses. As your Board of Directors, we represent you, and the other 700 plus households that are also members; this is substantively different than a business with a single owner, a few partners, or a small set of

shareholders. In our model, you are each an equal stakeholder in the business, with the same rights and responsibilities as any other member. You are entitled to the same benefits, and are also able to exercise your voting power to influence the leadership of your Board of Directors. You, the Board of Directors, and all other members are equal owners of the corporation.

A frequent question revolves around the pace of finding a location for the store. And while I share the same concern about the status, I am not concerned about the pace. We are following a very conservative model that offers us the best chance for success. The model is the Four Cornerstones in Three Stages Model. This has been a successful process for many food cooperatives in their mission to locate in a physical space, and has served us well to this point. The most basic understanding of the model is that each of the three stages of Organization, Feasibility and Planning, and Implementation are grounded in the four cornerstones of Vision, Talent, Capital, and Systems. This is a model developed by our consultants at CDS, a cooperative composed of professionals dedicated to helping cooperatives be more successful, whether at the start-up phase or later in their development. I have included a graphic of the model so that all of the member/owners can understand where we are at in the process. Currently we are between Stages II & III and have been moving towards Implementation throughout the past year. However, this is not an easy process and we are constantly revising the Feasibility and Planning components. Each time we move towards Stage III and Implementation we are stronger and better prepared.



In addition to this model, we have another aspect of the process that will help determine our success. That is the Capital Cornerstone, which is integral to the next phase of our process. Basically, this is the financial resource that we will need to build the store, and in our model

that resource comes primarily from the membership. While we will need to pursue a number of avenues to complete the financial package, the likelihood of our success will be dependent upon the amount of capital raised from member/owners. That capital will come in two forms: Member Loans and Preferred Shares, each of which work in different ways to achieve our goal of a robust financial package as we implement the store build out. As we progress into the capital campaign, there will be more information available on the differences.

Finally, when the location is locked in, we will be hiring a person to manage the store that is accountable to the Board, and ultimately the membership through that elected Board of Directors. As we progress towards the goal of opening the store, this will be an invaluable asset in order to hold all parties accountable and prepare the store to meet the expectations of both membership and the community at large.

Terre Foods is the tortoise: Dedicated, Focused, and Patient.

I wish you all the best in the year ahead, and look forward to how we will impact our community for many more.

Chris Weber
Board President

TFCM Annual Summary of Activities

Submitted by Lorrie Heber, Board Member at-large

Your Terre Foods Cooperative Market leadership and volunteers spent 2014 working in the areas of property vetting and acquisition, financing, human resources, and community outreach as we move ever closer to putting doors on our store.

Without question, finding the right place for our grocery occupied and continues to occupy the lion's share of our time. Shortly after we hit the 600 member mark, we worked with our lead consultants at CDS to establish criteria necessary for evaluating properties for the store. Standards for square footage, parking and delivery access were set. Then more than 40 properties were put through an evaluation based on those standards. Once the field was narrowed, we partnered with a real estate agent to help us determine availability and price of those properties that remained. Interestingly, this list is quite fluid and changes frequently along with the changing landscape in downtown Terre Haute. Three particular properties identified were selected for market feasibility studies. These studies provided vital information about the potential success of the space and its location. Most importantly, the studies provide a 'projected sales per square foot' number essential to developing a business plan and pro forma for the site.

A pro forma is a set of financial assumptions and projections that help to map our store's viability based on its cost and projected sales and income. This document is what you take in hand to property owners and lenders to show the worth of your project. Pro forma plans have been developed for a few of our sites and we have shared those with lenders to gauge their interest in our project. Our discussions have been encouraging. The first line of financing for the store, however, will be from the member owners of TFCM in the form of member loans and purchase of preferred shares. Work has begun on the structure of those vehicles and will be offered when the location of the store has been secured.

With the exception of consultants and other professionals, all work done to date for our co-op has been done by volunteers. As we get closer to doors open we will have the need to employ a general manager and others to take on a growing set of tasks including project management skills necessary to get the store up and running. We began a hiring process for a general manager this year based on a timeline that we had set late last year. Once we determined that we were not meeting that timeline, the search was suspended. The good news in our learning is that we know of an excellent pool of candidates and we have done work to develop the job descriptions needed once we are truly ready. Thought has also been given to hiring a Community Outreach Coordinator on a temporary project basis to help with communication and membership. Work continues in that area.

And finally, we have grown from 636 members to 738 members in the last year! Thanks to the hard work and dedication of our member owners, we had yet another wildly successful Blueberry Festival where we sold every last berry and we were a tasty entrant in the Altrusa Chili Cookoff!

It may seem quiet and as though nothing is happening but, on the contrary, the work being done now behind the scenes gives us the best possibility of realizing our collective dream of a coop market in the future. Here's to a productive and exciting 2015!

Financial Summary Report

Submitted by Jennifer Hale, Treasurer of the Board

Fiscal year 2014 was a larger than usual spending year for the coop. This is because we have been making progress to get a store open! Overall, Terre Foods Cooperative Market incurred \$35,370.14 in expenses in FY14.

Additional support has been needed from consultants to ensure we are making the most informed decisions on properties and that we have accurate documentation to take to the banks for loans. **(\$17,241.76)**

Even though Terre Foods does not have a storefront, we have been doing business in the community by hosting and participating in local events. The cost of doing business includes advertising and supplies for events, as well as insurance and attorney fees. (**\$18128.38**)

GENERAL FUND	
STARTING BALANCE (OCTOBER 1, 2013) \$53,522.66	
EXPENSES	\$35,370.14
INCOME	\$29,145.60
ENDNG BALANCE (SEPTEMBER 30, 2014)	
\$47,289.12	
EQUITY	\$14,535.39
EVENTS	\$5,035.68
CAPITAL FUND	
STARTING BALANCE (OCTOBER 1, 2013) \$79,366.16	
INTEREST	\$76.48
ENDNG BALANCE (SEPTEMBER 30, 2014)	
\$79,442.64	

Financial Pro-forma Development

Submitted by Rob Bunch, Board Member at large

The Terre Foods Board of Directors continues to work closely with CDS Consulting Co-op in following their well-established Food Cooperative Development Model. This model consists of four cornerstones, Vision, Capital, Talent, and Systems and three stages 1) Organizing, 2) Feasibility and Planning, and 3) Implementation. We are diligently progressing through the planning stage setting our sights on implementation and opening a store.

The large amount of capital required to open a store and assure that the store will thrive and succeed can be overwhelming. The uses of funds in initial planning include project management, preliminary design, legal fees, hiring expenses, promotion, etc. As soon as a store site has been obtained major costs arise such as equipment purchases, improvements to a lease or building construction, and stocking the shelves with inventory. Creative ways of raising capital will be necessary with a possible offering of preferred shares, as well as more traditional sources such as member loans and bank loans.

One of the key planning issues has been the development of a feasible pro-forma for each potential store site. The pro-forma is a financial planning document and management tool that helps us evaluate a project for feasibility. It also provides the financial information required by any lender as they evaluate a loan request and may be required by a potential landlord.

The pro-forma document summarizes the projected future status of a project covering a 5-10 year period, based on the key assumptions of the current anticipated sources of funds and uses of funds during implementation. Besides sources and uses, the pro-forma includes a balance sheet, income statement, cash flow projections, key financial ratios, and debt schedule. There are many drafts and revisions of any pro-forma as more information is learned about a potential store site.

Over the past nine months, several pro-forma drafts were developed on potential store locations. They make conservative, responsible estimates about the expected revenue and expenses needed. We must continue our financial due diligence as we aim for our goal of opening a grocery store.