



Locally-grown. Community-owned.

2023 ANNUAL REPORT

MARCH 18, 2024

LCM 2023 Annual Report

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2023 Board of Directors

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Karen Hignite, Treasurer

Gretchen Demmin Secretary

Caroline Ahern, Director / Finance Chair

Ellis Burruss, Director

Dennis Fuze, Director

Glenn Willard, Director

Petrina Dawson, Director

General Manager, Killian Geeslin

Letter from the Chair

2023 has indeed been a year for celebrations: closing on our bank financing, making us only the second food co-op in the country to get an SBA loan guarantee; raising over \$1.8 million in member loans; and, adding 562 new member-owners in 2023. To cap it off, we opened the doors to our new store on November 1, 2023, and what a store it is! I don't think anyone envisioned our "little co-op" being so beautiful and inviting, with such a generous selection of products (including beer and wine) and a professional and friendly staff. We have made it here because of the support of you, our members, and especially because of the member investors who literally bought into this vision of a community owned grocery store in Lovettsville. So thank you to all our members and investors!



This journey has not been without its challenges, but we all breathed a sigh of relief when we were able to lock in our store site at Lovettsville Town Commons and received an updated market study showing the new site had strong sales potential. Little did we know that over the next four years we would face a pandemic, massive supply chain disruptions, workforce shortages and exploding inflation. These factors resulted in significant construction delays and substantial increases in the project's overall costs. Fortunately, You, our members, stepped up to invest even more in your Co-op, allowing us to raise over \$1.8 million in member loans to help cover our increased startup costs and fund over \$300,000 in working capital. As a result, we were able to be in a strong financial position when we opened, optimizing our management team's chance for success.



It's tempting to sit back and take a breather, but building a beautiful, inviting bricks and mortar store is simply a first step in fulfilling our Mission:

The Lovettsville Cooperative Market will offer healthy products in a member-owned grocery store to members and non-members alike. We are committed to policies, practices and values that support a vibrant community and a strong local economy.

We, the Board, are committed to achieving our Mission, but to do this we are having to adjust from managing a weekly farm market to overseeing a management team running a multimillion-dollar enterprise! We are no longer involved with daily operations, and, honestly, it is a challenge adjusting to our new normal. Similarly, we are asking you, our member-owners to adjust your habits and shop first at the Co-op before going to your old stand bys. Co-op's across the country rely on their members to generate over half their sales and we are no different. We need you to shop often and fill your baskets! If we don't have what you want or you have other feedback, fill out a suggestion card at the front of the store or tell Killian, our General Manager. We want all feedback - both positive and constructive. Also, encourage your friends and neighbors to shop at the store and become a member – members are much more likely to shop at the Co-op than non-members. We are off to a great start; but, to be truly successful, we all have to support our Co-op every week by shopping, shopping, shopping!

Thank you so much for making this all possible!

John

CELEBRATING A GREAT BEGINNING AND A BRIGHT FUTURE AHEAD

Greetings to All from your GM,

In late March of 2023, I was invited by Interim General Manager, Garland McQueen, to visit the Lovettsville Cooperative Market at 11 Town Center Drive. At that time, the shell of the building was just being completed. For the next month or so, I visited the site, alongside Garland, on Monday afternoons. We discussed the Co-op, its vision and the community of people working since 2011 to bring the Co-op into existence. From the very beginning, I knew that this co-op could be, and NOW IS a special place for the community to support local and high-quality food that they can trust.

On April 1, 2023, I was officially hired as Operations Manager and was promoted to General Manager in August to “take the reins” from Garland once he left. I worked alongside Garland, the board of directors, developers and our dedicated staff to make this vision of a fully-functional community owned food cooperative a reality. During the time before our opening on November 1, 2023, my understanding and appreciation for Lovettsville and its surrounding communities grew deeper. The clear understanding I had from almost every owner and investor is that they wanted a food cooperative that supports the local, hardworking and industrious producers of Loudoun County. And of course, to have a more convenient option to pick up great tasting and well-sourced food!

In the months leading up to opening Day on November 1, we have partnered with more than 40 Loudoun local producers and businesses and over 100 local vendors within 150 miles of our store. Since opening, we have sold more than 1,300 pounds of meat from Virginia farmers, more than 50 units of local cheese and have partnered with 35 Virginia local breweries and wineries! During the Thanksgiving holiday alone, we sold more than 800lbs. of turkey from Hillside Farms in nearby Thurmont, Maryland.

We are a key stakeholder in keeping Loudoun County a supporter of its local producers and farmers. We are enthused to continue our support of local producers heading into the spring season and our team is working together to add at least one new local vendor into our store each week.

Along the way we have greeted more than 33,000 shoppers, have had over 250 new members join the co-op since opening day, and are now almost 1500 member-owners strong! We are the largest private sector employer in Lovettsville with over 25 employees! We have also started a bring-a-bag donation program with a 5-cent donation for a local charity for each reusable bag used at the Co-op. Our first donation from this program will be going to Equine Rescue League from Lovettsville, Virginia. Our produce compost is being utilized by Sunny Knowles Farm, Lion’s Den Farm and Goss Family Farms. We are excited to launch and support other community efforts soon and look forward to launching in-store recycling options.

In closing, I would like to send a heartfelt thank you to all our owners, investors, vendors, and distributors who have made the first four months not only a reality, but a resounding success. I would like to send a special **THANK YOU** to our dedicated staff! Opening a

new store is not easy and while we have a lot of room for growth, the staff's enthusiasm, commitment and daily eagerness to improve the store can only mean great things ahead for our food co-op.



A food co-op, like any business, must strive to get bigger and better while staying true to their core mission. The Lovettsville Co-op will remain true to its emphasis on providing a valuable service to the community, while supporting our local producers; being a good steward of our resources; and, fostering an environment that is welcoming to everyone. I am excited for the future of the Co-op and the many good and positive things we will accomplish during our first full year of operations! Here is to the future and to all the hard work, commitment and fortitude that allowed us to get to this great starting point.

Killian

2023 Highlights – Membership

Our membership in 2023 has absolutely exploded! We started the year with 879 member-owners and by opening day on November 1, 2023, we had 1,209 member-owners (our target was 1,000)! We added an additional 234 member-owners in November and December to close out the year with 1,441 member-owners! These 562 new member-owners in 2023 translated to \$112,000 in Member Equity, funds that have been critical in helping to offset project cost overruns. And the trend continues with our current membership approaching 1,500 member-owners just two months into 2024!

The accompanying graph showing the membership growth since the Co-op's founding demonstrates how phenomenal this last year has been. After five years of limited growth prior to 2020, the rate of growth began to increase, primarily due to the Membership Committee's tireless work staffing tables at farm markets and fairs, pouring wine and beer at town events, and doing anything and everything possible to promote the Co-op. With the start of construction, people realized that this long awaited dream was really coming true. It is incredibly gratifying seeing the enthusiasm for our locally grown, community owned food Co-op!



2023 Highlights - Financial Position

Sources and Uses – How We Built Your Store!

The following table provides a financial overview of how the Co-op financed the construction and opening of your store. On the Sources side, the bulk of the funding was sourced from Member Loans and bank financing (First Position Debt). While the remaining sources are less substantial than the Member Loans and First Position Debt, they were instrumental in providing financing in the Co-op's formative years and funded crucial expenses before we secured member loan funds and bank financing.

On the Uses side of the ledger, Leasehold Improvements and Equipment are the major expenditures, accounting for 60% of the total. Professional fees, pre-opening promotion, personnel, and operations expenses are also significant and include years of consulting, market studies, store design, architecture fees, and legal expenses, as well as the staffing and operational costs required as the store prepared to open. The store opened with a healthy working capital balance, which is crucial as start-up businesses typically require many months to stabilize sales and produce a positive operational cash flow.

| <u>Sources & Uses - Inception to Date</u> | | | |
|--|---------------------|--|--------------|
| <u>Uses of Funds</u> | | <u>Sources of Funds</u> | |
| Equipment | \$ 1,060,000 | Member Loans | \$ 1,818,000 |
| Leasehold Improvements | 906,000 | First Position Debt | 950,000 |
| Working Capital | 521,000 | Member Equity | 224,000 |
| Professional Fees | 187,000 | Donations / Benefits / Farm Market Sales | 134,000 |
| Pre-opening Personnel Expense | 129,000 | Grants | 75,000 |
| Pre-opening Operations Expense | 127,000 | Landlord Contribution | 69,000 |
| Capitalize SBA Guarantor | 95,000 | CoPos Loan (POS System) | 24,000 |
| Rent Deposit | 75,000 | | \$ 3,294,000 |
| National Co-op Group Deposit | 73,000 | | |
| Inventory | 65,000 | | |
| Pre-opening Promotion | 38,000 | | |
| Financing Fees & Pre-opening Interest | 18,000 | | |
| | <u>\$ 3,294,000</u> | | |

Member Loans

The Co-op kicked off the Capital Campaign in February of 2021, and over the past three years, we surpassed our goal of raising \$1,800,000! This was not a small feat considering the goal posts had been moved twice from the initial \$1,600,000 due to cost overruns and construction delays. The funds were raised through 15-year member loans paying from 4% to 6% (or higher!) depending on the size of the loan. This lower-cost financing source was *instrumental* in keeping our debt service manageable in a rising interest rate environment and we have you – our members-owners – to thank for making this store possible. When the Co-op produces positive cash flow and the bank approves, we will begin paying Member Lenders their accrued interest.

Loan from National Co-op Bank

We closed on our \$950,000 SBA 7(a) loan – another critical funding source - from National Co-op Bank in June of 2023. The bank loan proceeds funded the remaining leasehold improvements and start-up operations of the store. The Lovettsville Co-op is only the second food cooperative in the country to secure SBA 7(a) financing, so we are incredibly proud of this accomplishment and are grateful for our partnership with National Co-op Bank.

Member Equity, Donations, and Grants

The Co-op received over \$11,000 in donations from individuals and the Loudoun County Board of Supervisors awarded the Co-op with a \$60,000 grant. The County grant received unanimous support from the Supervisors and is based on our commitment to source at least 25% of our sales from Loudoun County producers. Note that the Co-op, while not a 501c(3) organization, can use charitable donations for certain limited purposes and has a mechanism to process them so that they are tax deductible for the donor.

End of Year Financials

On the next two pages, we have included our balance sheet as of December 31, 2023, and our income statement for the calendar year ending December 31, 2023. On the balance sheet, the assets reflect our strong cash position at year-end with over \$400,000 in unrestricted cash available to purchase inventory, compensate staff, service our bank debt, and pay other operational expenses. As of December 31, we drew down approximately \$920,000 of the bank loan; as of the date of the annual meeting, the full \$950,000 was outstanding.

The income statement reflects a net loss for the year, which is both normal and expected with ten months of pre-opening expenses and two months of operational expenses offset by only two months of sales. While we are confident in our financial position four months after opening, we continue to consult with grocery co-op operational and financial subject-matter experts to ensure we have the best advice available in this crucial first year of operations.

Lovettsville Cooperative Market, Inc.

Income Statement

January - December 2023

| | Total |
|--------------------------------------|---------------------|
| Sales | \$ 689,783 |
| Cost of Goods Sold | 416,402 |
| Gross Profit | \$ 273,381 |
| Expenses | |
| Personnel Expenses | \$ 323,747 |
| Occupancy Expenses | 35,634 |
| Operations | 119,669 |
| Administration | 203,925 |
| Marketing & Membership | 34,752 |
| Total Expenses | 717,727 |
| Net Operating Income | \$ (444,346) |
| Other Income/Expense | |
| Other Income, Net | \$ 74,629 |
| Depreciation and Amortization | 44,473 |
| Total Other Income/Expense | \$ 30,156 |
| Net Income | \$ (414,190) |

Lovettsville Cooperative Market, Inc.

Balance Sheet

As of December 31, 2023

| | Total |
|--|---------------------|
| Assets | |
| Current Assets | |
| Unrestricted Cash | \$ 403,918 |
| Restricted Cash | \$ 98,386 |
| Total Cash | \$ 502,304 |
| Other Current Assets | |
| Receivables | \$ 46,645 |
| Inventory | \$ 64,766 |
| Total Other Current Assets | \$ 111,411 |
| Fixed Assets | |
| Building Improvements | \$ 822,080 |
| Less: Accumulated Depreciation | \$ (9,134) |
| Fixtures & Equipment | \$ 1,060,163 |
| Less: Accumulated Depreciation | \$ (35,339) |
| Total Fixed Assets, Net of Accumulated Depreciation | \$ 1,837,770 |
| Long-Term Assets | |
| Deposits | \$ 75,000 |
| Other Long-Term Assets | \$ 72,883 |
| Total Long-Term Assets | \$ 147,883 |
| Total Assets | \$ 2,599,368 |
| Liabilities and Equity | |
| Liabilities | |
| Current Liabilities | |
| Accounts Payable | \$ 33,570 |
| Current Accrued Liabilities | 54,086 |
| Total Current Liabilities | \$ 87,656 |
| Long-Term Liabilities | |
| Loan Payable | \$ 919,505 |
| Member Loans | 1,818,000 |
| Total Long-Term Liabilities | \$ 2,737,505 |
| Total Liabilities | \$ 2,825,161 |
| Equity | |
| Member Equity | \$ 263,278 |
| Retained Earnings | (74,881) |
| Net Income | (414,190) |
| Total Equity | \$ (225,793) |
| Total Liabilities and Equity | \$ 2,599,368 |