



**NATURAL HARVEST FOOD CO-OP, INC.
MEMBER LOAN PROGRAM
PROSPECTUS**

Description of the Co-op, expansion project, member loan program,
financial disclosure and statement of risks

February 23, 2016

**Natural Harvest Food Co-op, Inc.
505 3rd Street, North
Virginia, Minnesota 55792**



Confidential Notice: This Prospectus is intended only for Members of Natural Harvest Food Co-op, Inc., and may not be reproduced or redistributed except with the written permission of Natural Harvest Food Co-op, Inc.

NOTICE TO MEMBERS

Natural Harvest Food Co-op, Inc. (the “*Co-op*”) is seeking loans from its members (“*Members*”) to raise the funds needed to finance the construction of a new building and acquisition of additional equipment and inventory (the “*Member Loan Program*”). This Member Loan Program Prospectus (this “*Prospectus*”) has been prepared on a confidential basis solely for the benefit of selected persons who are members of the Co-op and residents of Minnesota.

Members interested in making a loan to the Co-op should consult their own legal counsel, accountant, or business advisor as to legal, tax, and other matters relating to the Member Loan Program. A member loan involves a significant degree of risk. The transferability of the promissory notes for loans is restricted. A member loan is suitable only for members who have adequate financial means and have no need for liquidity in any funds loaned. A member loan is also suitable only for persons who understand the nature of the risks involved and who can afford to assume such risks and to sustain a loss of their loan.

Other than as set forth in this Prospectus, no person has been authorized by the Co-op to give any information or make any representation concerning the Co-op, other than as contained in this Prospectus in connection with the Member Loan Program. The information stated in this Prospectus is current as of February 15, 2016, and the delivery of this Prospectus at any time does not imply that information stated in this Prospectus is correct as of any time after February 15, 2016.

The Co-op retains the right to accept or decline Member loans. The Co-op reserves the right in its discretion to amend or withdraw all or any part of this Prospectus without liability to any Member in the event any such Member’s loan is denied.

This Prospectus includes financial information and forward-looking statements. Any and all financial projections and forward-looking information are based on assumptions regarding future events that are uncertain and subject to the risks described in this Prospectus. The Co-op makes no representation or warranty as to whether it will actually attain any projected financial results.

In reliance upon certain exemptions under the Securities Act of 1933 and the Minnesota Statutes, the Member Loan Program has not been registered with the Securities and Exchange Commission or the Minnesota Department of Commerce. The Securities and Exchange Commission has neither approved nor disapproved of the Member Loan Program nor passed upon the accuracy or adequacy of this Prospectus.

INTRODUCTION

In 2015 the Co-op's Board of Directors and the General Manager determined based on a market study and financial pro forma that the construction of a new building on 4th Street North in Virginia, Minnesota is in the best interest of the Co-op. Moving to this location will allow the Co-op to greatly expand the products and services offered to its members, to increase jobs in its community, and to increase purchases from local growers and suppliers.

To finance the construction and acquisition of additional equipment and inventory, the Co-op will secure a significant amount of debt from banks, and cooperative and community development funds. A key ingredient of the financing strategy for the project is to solicit and receive loans under the Member Loan Program. The Co-op is offering members the opportunity to financially support the Co-op and its expansion project through the Member Loan Program. The loans through the Member Loan Program are unsecured and subordinated. There are a number of other risks involved in the Member Loan Program that will be outlined below in this Prospectus.

Members who support the Co-op through member loans are playing a vital role in the establishment and growth of our community-owned business and the expansion of the cooperative movement.

BRIEF HISTORY AND ACCOMPLISHMENTS OF THE CO-OP

In 1976 a few families formed a buying club to get healthy bulk foods otherwise not available in this area. In 1979 the Co-op incorporated and opened the doors to its business on Chestnut Street in Virginia, Minnesota with 93 Members, and the membership fee was \$50.

After years of steady growth in membership and sales, the Co-op needed to expand. In cooperation with the IRRRB and the City of Virginia, Minnesota, the Co-op was able to move to its new location on Bailey's Lake late 1996. Moving to the newly constructed log building meant that the Co-op could quadruple its inventory overnight! The Co-op now also has a 24-foot cooler with organic produce. Retail space grew to 3200 square feet. By 1999 sales had grown from \$370,000 before the move to \$705,000, membership grew from 379 to 610, the number of employees increased from 5 (only 2 full-time) to 9 (6 of them working more than 30 hours per week and qualify for health insurance). Additionally, the Co-op added a deli with seating for twenty-four people in 1999, which space also held monthly classes.

By 2004 the Co-op's sales reached \$1 million. In 2006 the Board of Directors adopted Policy Governance. Sales reached \$2 million at the end of 2013. In the spring of 2012 the Co-op installed our first POS system. In April 2014 the Co-op became a full member of National Co-op Grocers ("NCG").

In 2015, the Board issued the first Patronage Rebate, and daily discounts for owners were discontinued in favor of the Patronage Rebate system. By the end of 2015, the Co-op's sales reached \$2.5 million. The Co-op now has 22 employees, 10 of which are full-time and eligible for benefits. The Co-op is also outgrowing its current location and is in need of more office space; backroom storage; produce, freezer, and refrigerated space. Parking is limited. The Board of Directors is considering an expansion of the Co-op's store to double its retail offerings, expand its deli services, and add a classroom. Over the years, the Co-op's active membership has grown to 1,778.

In 2015 the Co-op commissioned a market study and engaged store planners, including architects and engineers, to help with preliminary plans of a new store and a preliminary pro forma. At the December board meeting, the Board of Directors voted to move forward with the expansion and seek financing for the Co-op's expansion project.

The Co-op's General Manager Anja Parenteau has been with the Co-op since September 2007, serving as General Manager since 2013. During Anja's time as General Manager, the Co-op has experienced rapid growth and strong business performance. Anja has assembled an experienced and talented management team comprised of long-time staff members and recently hired department managers. The management team contributes greatly to the success of the Co-op, and will provide dynamic leadership and management expertise as the Co-op expands into a larger space.

Management Team:

Anja Parenteau, General Manager
Sandra Tardiff, Assistant Store Manager and Grocery Manager
Ashley Phoenix, Produce Manager
Alex Haugen, Deli Manager
Patricia Torrel, Marketing & Member Services Manager

Board of Directors:

Troy Caddy, Co-Chair, term expires 2018
Samantha Krage, Co-Chair, term expires 2016
Debbie Pettinelli, Vice President, term expires 2017
Britta Bloomquist, Secretary, term expires 2016
Chris Ismil, Treasurer, term expires 2018
Leah Briski, term expires 2018
Sarah Packa, term expires 2017

Zach Yurtizc, term expires 2016
Jake Rosandich, term expires 2017

COOPERATIVE STRUCTURE AND MISSION

The Co-op is organized as a consumer-owned cooperative and derives capital from its owners, the members. Each member is entitled to vote for directors and to participate in decisions concerning the Co-op. Annually, the Board of Directors may elect to distribute to members a share of net profits based on the members' proportionate share of purchases during the year. Copies of the Co-op's Articles and Bylaws are published on the Co-op's website (www.naturalharvest.coop) and available upon request.

The Co-op subscribes to the Rochdale Co-operative Principles of:

- ✓ Voluntary and Open Membership
- ✓ Democratic Member Control
- ✓ Member Economic Participation
- ✓ Autonomy and Independence
- ✓ Education, Training and Information
- ✓ Co-operation among Co-operatives and
- ✓ Concern for Community.

The Co-op's Board of Directors adopted the following Mission Statement:

At the Co-op, we are committed to a sustainable future through communication, cooperation and education. We provide quality food, products and services for the health and wellbeing of our families, our community and our planet.

The Co-op is a thriving natural foods grocery, owned by over 1,800 active members. The Co-op provides its community with jobs and an outlet for locally grown and produced products, while maintaining its commitment to the environment and re-investing profits locally.

CAPITAL STOCK

A fundamental cooperative principle is one member, one vote (i.e., democratic member control). No matter how many shares of stock a member owns, the member is only entitled to one vote.

According to the Co-op's Articles of Incorporation, the amount of authorized stock of the cooperative is \$300,000.00. This amount is divided into three classes: four Thousand (4000) shares of class A stock of the par value of Ten Dollars (\$10.00) each; sixteen Thousand (16,000) shares of Class B Stock of the par value of Ten Dollars (\$10.00) each; and Five Hundred shares (500) shares of Class C Stock at a par value of Two Hundred Dollars (\$200.00) each. As of December 30, 2015, the Co-op's members have paid in \$26,220 in Class A voting stock;

\$104,880 in Class B non-voting stock; and \$15,600 in Class C stock. *[Note that the Co-op has not increased the par value of its stock since 1979, and accordingly is proposing to Amend its Articles of Incorporation and Bylaws to increase the par value of Class A stock to Sixty Dollars (\$60.00) per share]*

RELOCATION PROJECT

The Co-op is outgrowing the present space, with only 3,300 square feet for retail (4,400 square feet overall), 24 off-street parking spaces, and nearly 300 transactions/day. Space for administrative functions and meetings is inadequate. There is no employee break room. Storage space, especially for produce, frozen, and refrigerated items is at capacity. The current site has limited additional growth and efficient operations.

After over 2 years of planning, the Co-op is ready to refine its design plans and raise funds to construct its new building on 8th Street North, on Silver Lake in Virginia, Minnesota. The Co-op anticipates up to 10 months of construction before it can occupy the new building and open for business.

The marketing strategy for the Co-op in a larger store has two primary goals: (1) retain its strong customer base, and (2) attract new customers. The new site is only one block west of the Co-op's current site but much more visible and accessible.

The Co-op will be able to improve customer service and enhance the shopping experience with four checkout lanes, wider aisles, additional retail space for grocery, produce, fresh meat, bulk foods, health and body care products, a deli, a hot and cold salad bar, and a customer seating area. There will be an on-site classroom/meeting space as well as a more efficient and safer workspace for employees.

The Co-op will accomplish the design, remodeling, and equipment acquisition with features to reduce waste, reuse materials, recycle materials, and incorporate energy efficiency and energy alternatives.

The following is a summary of the costs of the expansion project and the sources of funds for its completion:

Uses of Funds	
Construction of Building	\$1,806,000
Site Development	\$ 290,000
Equipment	\$ 700,000
Additional Inventory	\$ 150,000
Professional Fees/Soft Costs	\$ 260,000
Contingency Fund	\$ 250,000
Total Uses	\$3,456,000

Sources of Funds	
Outside Sources:	
Bank Financing, 4.75%, 20 years	\$1,360,000
USDA Loan, 0%, 10 years	\$ 500,000
2 nd Position Loan	\$ 350,000
City of Virginia Grant	\$ 200,000
Natural Harvest Food Co-op:	
Cash Reserves	\$ 546,000
Member Loans	\$ 500,000
Total Sources	\$3,456,000

MEMBER LOAN INFORMATION

TERMS

The Co-op intends to raise at least \$500,000 in unsecured, subordinated member loans in minimum amounts of \$1,000. The interest rate range offered for loans from \$1,000 to \$4,999 will be 0.50% to 3.00%, depending on the term the member chooses. The interest rate range for loans of \$5,000 or more will be 0.50% to 4.00%, depending on the term the member chooses. Simple interest will be paid at the time of maturity. Loans will mature within five to nine years. Conservative projections indicate that the Co-op will generate sufficient earnings to pay the principal and interest due on outstanding loans as they reach maturity.

The Co-op encourages its members to support its growth through loans in order to use their money in a socially conscious manner and to help promote the goals and growth of their cooperative. Member loans will be used solely to support the relocation to 8th Street North, Virginia, Minnesota.

RISKS

Lending money to the Co-op involves a significant degree of risk. While the Co-op has listed all the risk factors of which it is aware, there may be additional unrecognized risks.

General Risks. The Member loans that the Co-op is seeking are not insured and, like nearly all investments, have an element of risk, which should be carefully considered by any potential investor. There are general risks inherent in any undertaking of this scope, many of which are beyond the control of the Co-op's management. The Co-op is also subject to general economic and business conditions—nationally, regionally, and locally. Additionally, the Co-op is subject to risks inherent in the nature of its business operations. The likelihood of the Co-op being successful must be considered in the light of difficulties, complications, delays, and unforeseen barriers encountered in such efforts.

Competitive Conditions. The retail food industry is a highly competitive one. Many of the Co-op's potential competitors are owned by large, diversified food companies that have resources far greater than the resources of the Co-op.

Market Conditions. The retail food market is volatile and unpredictable in general, and the natural foods sector in particular experiences uncertain changes.

Reliance on Key Personnel. The Co-op relies on its management staff and its Board of Directors, none of whom has any legal commitment regarding length of service with the Co-op.

Uncertain Ability to Attract Additional Qualified Personnel. There is no guarantee that the Co-op will be able to recruit and retain people possessing the skills and experience required by the Co-op for successful operation.

Uncertain Ability to Meet Cash Obligations. There can be no assurance that the financial projections contained in this Prospectus will be realized.

Unsecured and Unfunded Obligation. The Co-op offers Member loans that are not secured by any property pledged as collateral and are subordinate to other lenders. While the Co-op intends to do so as cash flow allows, it is not obligated to put money into a sinking fund towards principal repayment.

Non-Liquidity of the Loan. These notes cannot be sold, assigned, or transferred to another person. The lender must be prepared to hold these notes at least until their maturity.

Suitability Standards. In view of these risks, making an investment in the Co-op may be a suitable option for, and should only be considered by, those persons who understand the nature of the risks involved and that have adequate financial means to assume those risks, that are able to forego liquidity of the funds lent to the Co-op, and that can sustain a loss of those funds.

These suitability standards represent only minimum standards. Prospective lenders are encouraged to consult their own legal counsel, tax consultant, accountant, or other advisers to determine whether making a Member loan would be appropriate for their circumstances.

Member loans are solicited only from persons who are *active* members of the Co-op and residents of the State of Minnesota. An *active* member is defined as a person who paid the required member equity in exchange for Class A and B shares of stock in the Co-op, and who has a current address on file at the Co-op. All persons who lend money to the Co-op must be bona-fide residents of the State of Minnesota and must make the loan for their own account and not for resale. These Member loans cannot be sold, assigned, or transferred, as the Co-op is relying on an exemption from registration under federal and state securities laws. Interest earned on these loans is taxable and will be reported for the year paid with a 1099INT to the federal government.

Plan of Distribution

Member loans may be accepted by any one of the following Co-op managers:

- Anja Parenteau, General Manager
- Sandra Tardiff, Assistant Store Manager
- Patty Torrel, Marketing and Member Services Manager

The Co-op's Board Members and the General Manager will be calling members regarding the Member Loan Program. Contact with these people should be made only at the Co-op, 505 North 3rd Street, Virginia, MN 55792, or by phone at 218 741-4663. No other persons, except those listed in this section, are authorized to represent the Member Loan Program. Member loans will continue to be solicited for an unstated period of time considered reasonable by the Co-op.

SELECTED FINANCIAL INFORMATION

Financial Management Strategy

The Co-op's Board of Directors approves an annual budget. The budget is compared regularly to the Co-op's financial performance as depicted in its monthly income statements. These statements are based on estimated cost of goods sold but do give an accurate accounting of

operational expenses and sales. The Co-op performs quarterly storewide inventories that give it actual cost of goods sold and fill in the final piece of its current financial condition. The Co-op is required by our lenders to provide them with quarterly statements and balance sheets so that they can monitor our progress. The Co-op's accountants prepare annual corporate federal and state income tax forms. The Co-op was audited in 2014.

In addition to the Co-op's yearly budgets, it has also prepared five (5) year income statement and balance sheet projections that demonstrate the long-term viability of its expansion. These projections will be adjusted yearly as current financial data become available.

Condensed Financial Information.

The following financial data are from financial statements for fiscal years (FY) 2012, 2013, 2014 and FY 2015.

	FY 2015	FY 2014	FY 2013	FY 2012
Income Statement				
Sales	\$ 2,497,843.45	\$ 2,255,419.37	\$ 2,004,818.17	\$ 1,883,217.99
Cost of Goods	\$ 1,539,179.00	\$ 1,415,445.93	\$ 1,235,530.77	\$ 1,159,232.33
Operating Expenses	\$ 763,384.68	\$ 725,587.74	\$ 711,985.29	\$ 619,849.56
Other Income/Expenses	\$ 10,472.74	\$ 9,424.33	\$ (6,465.86)	\$ (23,226.43)
Net Income	\$ 207,324.46	\$ 123,810.03	\$ 50,836.25	\$ 80,909.67
Balance Sheet				
Current Assets	\$ 707,027.57	\$ 786,000.30	\$ 626,036.18	\$ 697,670.01
Fixed Assets	\$ 245,934.45	\$ 271,728.68	\$ 276,520.70	\$ 173,825.22
Other Assets	\$ 322,077.75	\$ 16,997.53	\$ 8,791.61	\$ 8,789.11
Total Assets	\$ 1,275,039.77	\$ 1,074,726.51	\$ 911,348.49	\$ 880,284.34
Current Liabilities	\$ 98,939.59	\$ 122,705.63	\$ 68,659.69	\$ 87,398.31
Long Term Liabilities	\$ -	\$ 4,994.46	\$ 17,793.40	\$ 29,356.88
Equity	\$ 1,176,100.18	\$ 947,026.42	\$ 824,895.40	\$ 763,529.15
Total Liability/Equity	\$ 1,275,039.77	\$ 1,074,726.51	\$ 911,348.49	\$ 880,284.34

The following table sets forth selected data from the financial projections for the first five (5) years of operation in the new store. Complete Balance Sheet and Income Statement projections for the first five years of operation are available upon request.

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Income Statement					
Sales	3,460,879	4,900,241	5,635,277	5,973,394	6,331,797
Gross Margin	1,309,025	1,862,092	2,141,405	2,269,890	2,406,083
Operating Expenses	1,092,496	1,457,690	1,642,763	1,732,466	1,827,304
Other Expenses	382,013	466,467	483,905	492,268	500,876
Net Income	-177,484	-74,065	2,737	33,155	65,903
Balance Sheet					
Current Assets	764,447	955,563	1,080,315	1,224,413	1,501,911
Fixed Assets	3,115,516	2,861,538	2,641,059	2,416,080	2,186,602
Other Assets	22,432	22,432	22,432	22,432	22,432
Total Assets	3,902,425	3,839,532	3,743,805	3,662,925	3,575,154
Current Liabilities	250,542	336,267	361,734	376,067	491,213
Long Term Liabilities	2,688,850	2,599,297	2,460,366	2,316,997	2,168,968
Equity	963,034	903,968	921,705	969,861	1,050,764
Total Liability/Equity	3,902,425	3,839,532	3,743,805	3,662,925	3,710,945

The Co-op's 2016 Member Loan Program Rates and Terms

- ❑ Level 1: Loans \$1,000 to \$4,999.99 = interest rate range 0.50% to 3.00%
(5 years: 2.00%, 6 years: 2.25%, 7 years: 2.50%, 8 years: 2.75%, 9 years: 3.00%)
- ❑ Level 2: Loans 5,000 and over = interest rate range 0.50% to 4.00%
(5 years: 3.00%, 6 years: 3.25%, 7 years: 3.50%, 8 years: 3.75%, 9 years: 4.00%)
- ❑ Minimum term is 5 years—Maximum term is 9 years

The term (5, 6, 7, 8 or 9 years) of each loan will be the lender's choice except that:

- ❑ 5 year loans will be accepted for approximately 20% of the dollar goal
- ❑ 6 year loans will be accepted for approximately 20% of the dollar goal
- ❑ 7 year loans will be accepted for approximately 20% of the dollar goal
- ❑ 8 year loans will be accepted for approximately 20% of the dollar goal
- ❑ 9 year loans will be accepted without limit other than the end of the Member Loan Program.

The Co-op's goal is to raise \$500,000 under the Member Loan Program. Interest on the loans will be compounded annually as of June 30 and paid at maturity. Loans are unsecured and subordinate. See detailed loan disclosure information elsewhere in this Prospectus. There is no penalty for prepayment or early payment of Member loans by the Co-op.

The Co-op cannot guaranty to any member that it could honor requests for early withdrawal of any member's loan. If a member does request early cancellation and cancellation is acceptable to the Co-op, the principal amount plus accumulated interest will be reduced by a penalty as follows:

- 1) If repayment is accepted with respect to a note having a remaining maturity of twelve (12) months or less from date of request, the penalty shall be an amount equal to three (3) months interest.
- 2) If repayment is accepted with respect to a note having a remaining maturity of more than twelve (12) months from date of request, the penalty shall be an amount equal to six (6) months interest.

All loans to the Co-op will be used to support a development of enormous importance to its members and to its community.

THANK YOU FOR YOUR SUPPORT!