CO-OP
FOOD STORES
PO Box 633, Hanover, NH 03755
603.643.2667

2015 Co-op Scorecard

2016 will mark 80 years of the Hanover Consumer Cooperative Society. During that time, the Co-op has grown from a buying club operating out of the garage of a member to one of the largest and most important consumer co-ops in the country. We've come from a one-employee operation to encompass a staff of more than 400 and sales of nearly $70 million—all the while contributing to the economic and social well-being of the Upper Connecticut River Valley. The following is an accounting of some of the work the Co-op has done in the past year to advance our Ends in support of our community. It recognizes that whatever good the Co-op is able to achieve in the community has a cost. This report attempts to show both the benefits as well as the costs of running our cooperative business pursuing the 7th Cooperative Principle of Concern for Community.

The Board Report

by Margaret Drye, President

The Board of Directors started talking about the renovation of our flagship store in Hanover back in 2014. Although we didn't break ground until November 2014, the renovation work continued steadily throughout the year in 2015. The project, our largest renovation on that store since 1994, took place while the store was open for business, which was a challenge. We are grateful to the staff of the Hanover Store, who kept smiling through the whole process, and to the staff of our other stores, whose workload picked up as some shoppers changed their shopping habits while the Hanover Store was under construction.

In November 2014, it was my privilege to be able, with the help of my grandson Jason, 3, to break the ground for the Hanover renovation. In October 2015, it was my privilege, with the help of my grandson Ethan, 2, to cut the ribbon on the finished renovation.

Watching former General Manager Arthur Gerstenberger (GM from 1965-1989) cutting the ribbon with a pair of overly large ceremonial scissors while standing next to Ethan and his tiny kid's safety scissors was a great picture of the past, present, and future of our co-op.

The entire project came in basically on time and on budget. It added 2,544 square feet to the building, and improved the environment of the whole store. In a cooperative that measures milestones by when we open stores and when we renovate stores, this was an exciting and historic moment.

In April, we bid farewell to board members Wynne Washburn Balcom, Martha Graber and Zeb Mushlin. Newly elected members Harrison Drinkwater, Victoria Fullerton, Tony Roisman and Brett Tofel joined the Board in May. In June, the seat vacated by the resignation of board member Kerry Artman was filled by Benoit Roisin. After this year's election, the expansion of the Board from 9 members to 12 members will be complete.

The Board set these priorities for the coming year:

Communications: Accountability via Policy Governance, Transparency; Strategic Vision through 2020; Board Development; Succession Planning (Board of Directors and Management); and our 80th Anniversary celebration.

Because we made communication and transparency a priority, the Board formed a Communications Task Force to investigate issues and solutions pertaining to transparency and communication throughout the Co-op.

Part of the job of the Board of Directors is to make sure that members are well-informed about the nature of the Co-op and that members understand the industry of which the Co-op is a part. We do this in a number of ways, including: holding forum series on business issues like pricing and finances; posting our bylaws, articles of incorporation, governance policies, and Ends policies; posting and advertising our election process and results; opening part of our regular monthly board meetings to member comments; posting the monthly board agenda and minutes from meetings; and posting and distributing our Annual Report.

This year we started posting a re-cap of board meetings and other board news and recently started posting a version of our board packet to help those attending follow along with the meeting as well as to make the Board's work better known to all members.

It will be difficult to replace the experience and depth of Terry Appleby's commitment to our co-op and co-ops in general.

Comparing us to other well-known co-ops both near and far, we are one of the most, if not the most, open and informative in the areas named above. Take the time sometime to look into our website and, if you get a chance, look up some other co-ops for comparison. You'll find that a lot of information is available to help our members understand our business. In the meantime, the work of the task force is ongoing, exploring other ways of communicating with our members.

Our 80th anniversary will be celebrated in a number of ways. A few special commemorative products (cheese and beer) have been developed to mark the occasion and our Annual Meeting on April 2 will highlight our long-standing cooperative relationship with local farmers and producers. Watch for details of special events.

Our co-op is entering a time of transition. Our General Manager Terry Appleby is retiring and some long-term members of the management term have retired or moved on.

We appreciate the leadership and service they have given to our co-op. One of the important jobs of the Board of Directors is to hire the Co-op's General Manager. Our Succession Committee recently posted notice of the opening at our cooperative and is in the process of receiving applications. While it will be difficult to replace the experience and depth of Terry Appleby's commitment to our co-op and co-ops in general, we look forward to hearing more from that committee as its work progresses.

While we are searching for a new person to manage the Co-op, the staff and management are busy fulfilling our Ends statement, which lays out the goals we are working towards in all areas of our business. This Annual Co-op Scorecard provides a summary of the results from last year in the areas of Economic Value Returned to the Community, Education, Employment and Job Quality, Environmental Stewardship, and much more.

In a year that will see us entering our ninth decade of service, we remain committed to working to provide cooperative commerce for the greater good of our members and community.

General Manager's Report

by Terry Appleby

Our organization was founded in 1936 first as a buying club and later that year incorporated as a cooperative. In between those phases, the early members were busy studying cooperation, learning about different cooperative models and hearing first-hand from Toyohiko Kagawa, a Japanese theologian and thinker. Kagawa toured the United States in 1936 and spoke at the Church of Christ at Dartmouth about his vision of Brotherhood Economics, which had cooperation as a foundational principle. From the very first meeting of the families that founded the Co-op there came a sense that there was to be an intimate connection with the community. Evident was a concern that local enterprises of all sorts should be supported. The work of the Co-op today in many ways mirrors that of the early organization. We still place a great emphasis on our relationships with local growers and producers and continue to nurture those valuable partnerships.

We still place a great emphasis on our relationships with local growers and producers.

Over the years the Co-op has grown from a garage on Valley Road to a store on Main Street to our five locations today. In the past several years we have continued to improve on the Co-op's infrastructure—the buildings and equipment that allow us to run the ongoing business. In 2015 that process saw the end of a multi-year planning and construction process to remodel the Hanover store. In rebuilding the Hanover location we expanded the areas of the store anticipated to grow the most in the coming years—fresh and prepared foods, which are also the areas we continue to grow our local partnerships.

The remodel had a significant impact on the operation and finances of the Co-op. The $5.3 million project required $3.8 million in new, long-term debt, stretched our cash reserves and disrupted sales throughout the organization. The Hanover store lost more than 20% of its former sales volume while the construction was in progress. The three other stores picked up many of those lost sales, but the overall effect was a loss of more than $2.9 million in food store volume. At the same time, the organization's Service Center was also experiencing losses in dollar volume due to the deflation in the price of gas and the disruption in operations caused by the need to replace old gas tanks that had reached the end of their useful lives. In all, sales at the Co-op fell during the year by $4.9 million from the previous year. While this is a large decline, it should be noted that the 2014 fiscal period was a 53-week year, and included an extra week of activity versus 2015.

The Hanover and Service Center projects were difficult for the entire Co-op, staff and members, and we are grateful for the support throughout. Disruptions of daily routines and unexpected surges or declines

in sales were difficult to predict but were handled with professionalism by our wonderful staff and our dedicated members. A million thanks to you all!

Cooperative Commerce for the Greater Good

In the long history of humankind (and animal kind, too) those who learned to collaborate and improvise most effectively have prevailed. ~ CHARLES DARWIN

For 80 years now, the members of the Hanover Consumer Cooperative Society have been collaborating and improvising to develop a cooperative alternative for our collective benefit. It has never been easy, but over the years, the members have relied on the Principles of Cooperation to show the way and have together built an organization that contributes vibrancy to the ongoing life of the place we live. At the Co-op, employees work together to put into practice the Board-developed Ends Policy that directs us to provide Cooperative Commerce for the Greater Good of our Members and Community. This Ends statement actually says *we exist for that purpose*. The report that follows illustrates what it is we have accomplished in striving for that noble goal, through the efforts of our hard-working staff and the support and economic participation of our member/owners.

Alone we can do so little; together we can do so much.

~ HELEN KELLER

Throughout its long history, the Co-op has found ways to collaborate, from establishing our first retail location in a member's garage on Valley Road in Hanover to the creation of our latest expansion, the Co-op Food Store in White River Junction. Sometimes our path to collaborations have been through difficult conversations, like during the grape boycotts of the 1970s that led to a stronger organization, and sometimes they have been through the simple acts of kindness that happen hundreds of times a week throughout our locations. There is something good happening at the Co-op that we need to continue to bring to the community.

Food Access and Education

The first formal Education Department of the Co-op was founded by Sally Gerstenberger in the 1950s, but a commitment for members to participate in sharing information about food and cooperation started at the Co-op's inception. Examples such as newsletters with practical advice for consumers can be found in the archival materials on the Co-op now housed at Dartmouth's Rauner Library. The collection of materials details a rich history of providing food and information to members over many years. In 2015 we continued that tradition by supporting a variety of programs that provided support for food access programs or science-based information to the community costing the Co-op more than $110,000.

The Co-op has partnerships on initiatives in this area, including: Willing Hands, food drives for local nonprofits, the Food For All and WIC discount programs, senior delivery program and direct food donations. In addition, the Co-op offered quality food education through our full-time dietitian, training at our Culinary Learning Center and our *Co-op News* online newsletter.

Willing Hands

Donated food had an estimated value of $257,419 or 0.37% of store sales.

Willing Hands is an Upper Valley non-profit organization serving more than 50 recipient groups weekly. Its mission is to distribute free, wholesome food to neighbors in need. Willing Hands was founded by Hanover Co-op employee Peter Phippen to make use of food that might otherwise go to waste. The Hanover Co-op has been a major supporter of Willing Hands since its inception in 2004. In 2015, the Co-op donated 196,129 pounds (98 tons) of food to this worthy organization, helping to provide nutritious food through area human services organizations.

The residents at Lebanon Towers are very grateful for all the fruit and vegetables that are delivered here weekly. There is no question that many would simply 'do without' if it were not for Willing Hands.

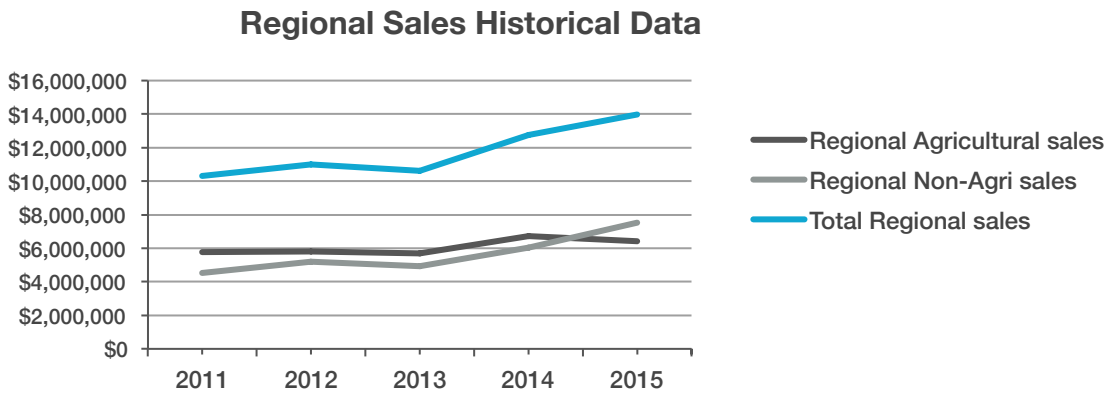
~ LETTER TO WILLING HANDS FROM LEBANON TOWERS (Subsidized Senior Housing)

Food Safety

The Co-op is dedicated to providing safe food for our shoppers and food safety training is a high priority for any Co-op staff person working with perishable food. In addition to our own food safety training modules the Co-op also uses a nationally recognized program called ServSafe®, using certified instructors. In 2015, 35 staff people were certified or recertified, putting the total number of ServSafe® trained staff to 100. An additional 30 staff took our 3.5-hour in-house training, making the Co-op a leader in the percentage of staff with rigorous food safety training.

Economic Value Returned to the Community

The Co-op is a leader in the area in returning value to the local economy and we do that in a variety of ways. First, over the years, we have developed close relationships with our local growers and producers, bringing their goods to market exactly as our founding members expressed in the minutes from their very first meeting. In 2015, our local purchases resulted in $13,961,585 in local food sales, which translated to 20.96 percent of food store sales!



	2011	2012	2013	2014	2015
Regional Agricultural sales	$5,770,048	$5,799,370	$5,684,144	$6,727,980	$6,434,016
Regional Non-Agri sales	$4,527,453	$5,184,663	$4,942,693	$6,044,655	$7,527,568
Total Regional sales	$10,297,501	$10,984,033	$10,626,837	$12,772,635	**$13,961,585**

Local Partnerships

In 2015, our local purchases resulted in $13,961,585 in local and regional food sales, which translated to 20.96 percent of food store sales from 292 vendors.

Value of Local

A 2003 study by the Institute for Local Self-Reliance showed that money spent with local businesses meant more dollars stayed in the local economy. Local businesses kept 53.3 percent of every dollar in the local economy, compared to 14.1 percent spent with non-local chain stores.

For some of us, if it wasn't for the Hanover Co-op, we might have folded years ago.

~ POOH SPRAGUE,
Edgewater Farm, Plainfield, N.H.

The Co-op's locally focused buying practices have a profound domino effect—ultimately providing jobs, commerce, and opportunities in a cycle of benefit for our communities. Studies have consistently shown that money spent locally will put more dollars back into the local economy than if those dollars are spent at businesses owned by an outside entity.

Extra money staying in the local economy as a result of local buying

2010	2011	2012	2013	2014	2015
$2,327,614	$2,757,416	$2,950,628	$2,708,310	$3,426,025	$3,783,063

Local Learning

One relatively new way the Co-op gives back value to the community is through the Culinary Learning Center. One example—under the direction of Chef Eli Morse the CLC offers Kids Cooking Camps to educate our future members on the art of cooking. And all Co-op staff receive excellent training at the CLC for free.

In Addition to Our Local Food Commitment: The Value of Giving

In 2015, the Co-op donated $26,296 to local non-profit organizations.

The Co-op pays for up to eight hours of volunteer time per staff person. Last year those volunteer hours provided another $14,425 in benefits to local non-profits.

Cooperative Partnerships

The Co-op's direct investment in cooperative partnerships was $80,131 in 2015.

Ever since the first members of The Hanover Consumers Club invested $1 each in the organization in 1936, the Co-op as a cooperative organization has invested in other cooperatives. Cooperatives are organizations capitalized by their members through the Cooperative Principle of Member Economic Participation. The Hanover Co-op is itself a member of several cooperative organizations and contributes economically to those entities through investments in membership stock and through purchasing, fees and dues. Today our investments in other cooperative associations, including the National Co+op Grocers, Associated Grocers of New England and NCB (the National Cooperative Bank) totals $1.24 million, helping these institutions serve members regionally and nationally. They are vital pieces to a strong cooperative movement and is how the Hanover Co-op lives the Cooperative Principle of Member Economic Participation. We also partner with cooperative businesses for the benefit of our organization and the whole cooperative movement. The costs of these partnerships in 2015 were $80,131.

Sharing Expertise

Another Cooperative Principle is Cooperation Among Cooperatives and the Hanover Co-op acts on this principle in a number of ways. In 2015, four member of the Co-op's Management Team served on boards of other cooperatives in the United States and Canada. Further assistance is provided to the cooperative movement through the sharing of information and expertise with other cooperatives. In 2015 this help translated into costs to the Co-op of $14,750.

Cooperative Fair Trade

The Co-op purchased nearly a million dollars' worth of products from Fair Trade cooperatives in 2015, an 18 percent increase over 2014.

The Co-op is proud to be part of a long-term partnership with Equal Exchange—a Massachusetts cooperative. We work with Equal Exchange to provide our members and shoppers with dozens of high-quality Fair Trade products—including customer favorites like bananas and coffee. Our Fair Trade relationship with Equal Exchange means cooperative trade from producer to importer to consumer!

Mexico and the Cooperative Supply Chain

Through our relationships with Equal Exchange and producer co-ops we participate in an unbroken cooperative supply chain for coffee. A result of that partnership is a sister co-op relationship with CIRSA in Chiapas, Mexico. Through the sale of its coffee a portion of every purchase is designated for a project to benefit CIRSA. Over the past three years we have been able to finance the purchase of solar dryers to help CIRSA process coffee. In 2015 we raised another $5,800 that will be used for projects chosen by the members of the CIRSA community.

The Hanover Cooperative Community Fund

In 2001, the Board of Directors of the Co-op created the Hanover Cooperative Community Fund (HCCF). In 2015, the HCCF endowment grew to almost $400,000 in size and is the largest cooperative fund within the administration of the Twin Pines Cooperative Foundation. Twin Pines invests HCCF funds in cooperative development throughout New England. Every dollar invested by Twin Pines leverages an additional ten dollars in financing for recipient cooperatives, meaning that Hanover's investment is leveraging $4 million for cooperative development, all in New England. Our Co-op investments are helping housing, food, worker and farmer cooperatives serve communities across the region. The fund also provides interest that the Hanover Co-op can then distribute to non-profit organizations in the Upper Valley, so HCCF money works doubly hard!

Environmental Stewardship

Our e-waste collection event has become a popular Upper Valley tradition. In the past three years we recycled more than 100,000 pounds of e-waste!

Environmental stewardship is a part of the mission of cooperatives across the country and Hanover has joined with other members of the National Co+op Grocers to quantify our impact. In 2015 the Co-op made strides in several areas, but the biggest impact was achieved through the changes made to the Hanover location during the store's remodel. The Co-op spent $370,000 on environmental upgrades, including high-efficiency condensers, a heat reclaim system, LED lighting upgrades, roof and wall insulation, and other energy-saving features and replaced more environmentally damaging refrigerants with better alternatives. These investments will produce lowered emissions for the life of the systems over their replacements and we'll report those results in our 2016 report.

Making a Difference

In 2015 the Co-op diverted 689,164 pounds of organic material from the landfill through our various waste-reduction programs.

In addition to the 98 tons of edible food donated to Willing Hands, 180 tons of material was composted and another 66 tons was diverted as animal feed. These efforts cost the Co-op $15,416 to have the composted material collected, but that cost was more than offset by the $70,278 in savings in trash tipping fees from diverting so much material!

Our popular e-waste event again ensured more than 35,000 pounds of materials were safely recycled.

Solar Hot Water

In 2014, the Co-op installed 15 evacuated tube solar hot-water collectors on the roof of the Lebanon store. In 2015, the system saved the Co-op more than 20 tons of carbon emissions. That's like planting more than 500 trees. On a sunny summer day, our solar hot-water system can produce 100 percent of 1,300 gallons of hot water used in our store each day!

Employment and Job Quality

The Co-op's investment in its staff in 2015 was more than $3 million higher than a chain grocery store with the same sales.

The excellent staff is our most important asset and the Co-op invests heavily in personnel. Wages and benefits are by far our biggest expense, and rightly so, as our people provide outstanding service and are incredibly dedicated to the Co-op and its members. To support our staff we invest in full-time positions (76 percent full-time in 2015) and excellent benefits. In 2015 we invested more than $15.3 million in wages and benefits. The result is that the Co-op has much higher staff retention rates than the grocery industry as a whole.

Investing in People

Because of the needs of the organization to conserve cash last year the Co-op did not provide staff with an across-the-board wage increase in 2015. However, by trying to address the needs of staff at the bottom of the wage scale first, we raised starting wages to $10.50 per hour and brought any staff person below that wage up to that level. To avoid compression of wages, we also raised the wages of those people close to the $10.50 level. The cost of those changes were $64,415 annually. In addition, 15 staff people received promotions and another 51 received merit increases worth an additional $73,508, for wage increases totaling $137,923.

What Separates the Co-op from Conventional Chains?

Seventy-six percent of our employees are full-time and receive fair wages, great healthcare benefits, 10 personal/sick days per year, and generous vacation time based on years of service. Our high-quality healthcare plan has had no decrease in benefits, and employee percentage of contribution to premium has been unchanged in four years. Co-op employees received a 20 percent discount on their food purchases, worth $308,800 in 2015.

Training

In 2015 the Co-op invested $211,861, or 0.30 percent of store sales, in staff training and development.

In all, staff spent 4,700 hours in training and development, a 62 percent increase over the previous year. Our target is to continue to increase that number to give staff new skills and new opportunities at the Co-op!

The Financials

The Co-op was able to weather a difficult set of problems in 2015 and finished the year with a modest net income of $81,000. The remodel of the Hanover store proved to be a project that tested staff and members alike to be creative and innovative. During most of the year at least a third of the store was disrupted and unavailable to produce sales. Consequently revenue from the Hanover store dropped by more than 20 percent for the year. The Lebanon, White River Junction, and Community Market stores all had significant increases in sales, but despite the solid efforts of staff and loyalty of members, it did not offset the loss in sales at Hanover and overall food store revenues were down by $2.9 million. In addition, sales at the Co-op Service Center declined for a variety of reasons, the most important of which were the steep decline in the price of a gallon of gasoline and the construction project at the station that shut down operations for six weeks. Sales at the Service Center declined by $2.0 million for the year. Margins increased slightly for the year and expenses increased as well, with a large part of that in remodel-related costs. In all, sales at the Co-op fell during the year by $4.9 million from the previous year. While this is a large decline, it should be noted that the 2014 fiscal period was a 53-week year, and included an extra week of activity versus 2015.

INCOME STATEMENT		**2015**		**2014**
Net Sales	$69,993,775	100.0%	$74,867,478	100.0%
Cost of Goods Sold	46,891,161	67.0%	50,864,374	67.9%
Gross Profit Margin	23,102,614	33.0%	24,003,104	32.1%
Store Wages & Benefits	11,591,090	16.6%	12,008,575	16.0%
Contribution Margin	11,511,524	16.4%	11,994,529	16.0%
Other Overhead Expense	6,094,209	8.7%	5,714,347	7.6%
General & Administrative Expenses	5,119,482	7.3%	5,442,084	7.3%
Total Operating Expenses	22,804,781	32.6%	23,165,006	30.9%
Savings from Operations	297,833	0.4%	838,098	1.1%
Interest Income	17,644	0.0%	26,604	0.0%
Interest Expense	(86,622)	-0.1%	(23,753)	0.0%
Miscellaneous Income	(25,128)	0.0%	2,634	0.0%
Savings Before Taxes & Patronage Refund	203,727		843,583	1.1%
Patronage Refund	-	0.0%	(501,179)	-0.7%
Income Taxes	(122,685)	-0.2%	(172,371)	-0.2%
Net Savings	81,042	0.1%	170,033	0.2%

BALANCE SHEET	2015	2014
Cash	$ 518,017	$ 516,117
Receivables	369,838	394,829
Inventory	2,000,069	1,960,228
Other Current Assets	734,781	431,739
Total Current Assets	3,622,705	3,302,913
Property & Equipment, Net	10,343,211	6,859,987
Other Assets	1,650,365	1,591,323
Total Assets	15,616,281	11,754,223
Accounts Payable	2,410,892	2,111,632
Notes Payable - Current	315,823	325,914
Other Current Liabilities	1,300,627	1,706,714
Total Current Liabilities	4,027,342	4,144,260
Long-term Debt	3,562,038	37,769
Other Long-Term Liabilities	1,025,031	671,668
Total Liabilities	8,614,411	4,853,697
Members Equity	3,378,341	3,365,766
Donated Capital	50,693	42,966
Retained Earnings	3,572,836	3,491,794
Total Equity	7,001,870	6,900,526
Total Liabilities & Equity	$ 15,616,281	$ 11,754,223

The Co-op's Balance Sheet strengthened as the year progressed. Cash was very tight through the first quarter, as the first phase of the Hanover store project was funded from internal cash flow of more than $1 million. Long-term debt financing through the National Cooperative Bank (NCB) covered the rest of the project. This increased the Co-op's debt-to-equity ratio, but it remains well within prudent levels. Total assets increased by $3.9 million through investments made in the Hanover store. Member equity in the Co-op increased as more members continued to join and the Co-op remained profitable.

CASH FLOW	2015	2014
From Operating Activities		
Net Savings	$ 81,042	$ 170,034
Depreciation & Amortization	1,097,341	957,567
(Increase) Decrease in Inventory	(39,841)	334,936
Patronage Refund Declared	-	501,178
Patronage Received	(45,393)	(148,395)
(Increase) Decrease in Other Current Assets	15,653	(274,816)
Increase (Decrease) in Current Liabilities	(250,060)	196,025
Cash Flow from Operations	858,742	1,736,529
From Investing Activities		
Capital Expenditures	(4,298,434)	(1,461,329)
(Increase) Decrease in Other Assets	17,347	88,967
Cash Flow from Investing Activities	(4,281,087)	(1,372,362)
From Financing Activities		
Increase (Decrease) in Long-Term Debt	3,514,178	(585,924)
Patronage Refund Liability Paid	(100,235)	(248,084)
Increase (Decrease) in Equity	20,302	26,716
Cash Flow from Financing Activities	3,434,245	(807,292)
Total Cash Flow	11,900	(443,125)
Beginning Cash & Cash Equivalents	516,117	959,242
Ending Cash & Cash Equivalents	$ 528,017	$ 516,117

While there were insufficient earnings to declare a patronage refund for 2015, members were able to get a return on their memberships by taking advantage of Member Discount days on the 15th and 16th of each month. Member savings for the program totaled $399,620.04.