



PO Box 633
Hanover, NH 03755
603.643.2667



Co-op Scorecard

The Hanover Consumer Cooperative Society is a member-owned consumer cooperative owned by more than 30,000 families, and one of the oldest and most successful co-ops of its kind in the United States. We began in 1936, when 17 Dartmouth College professors and their spouses formed the Hanover Consumer's Club. Annual sales reached \$11,404. Today we have locations in Vermont and New Hampshire, with sales of more than \$70 million.

The Board Report

BY MARGARET DRYE

Board President

In a time of transition, we continue to work towards meeting our stated Ends in an atmosphere of understanding and co-operation.

The renovation of our flagship store in Hanover was the predominant topic when we started 2014. In the early part of the year, the Board met with the architect and management as they presented their plans for a project which would repair and update our infrastructure and improve and broaden our product lines. The proposal presented to the membership for a vote in the spring was supported by over 88% of the voters. We broke ground in November on our largest renovation on that store since 1994.

In April, we bid farewell to board members Tricia Groff and Tyler Kurasek. Newly elected members Kerry Artman, Michael Bettmann, and Sarah Blum joined the Board in May. The Board set priorities for the coming year and ranked them in this manner:

Next 12 months: Ends Policy Review (as the top priority), Charitable & Philanthropic Program Policy, Community Market (establish timetables and expectations), Member Engagement, and Healthy Food Access Program (leading into August launch).

On-going, with 3-year time horizon: Policy Revisions, Legislative Outreach, New Business Opportunity Exploration, Succession Planning (Board of Directors and Management, skills assessment, leadership roles).

Our Ends statement is our guiding policy. We are reviewing it to see if it can be made simpler and easier to communicate. In order to explain some of our Ends and to gather member input, we held a forum series in October on aspects of our business, including our financial reporting, product selection and pricing, our local agricultural supply chain, and our partnership with a cooperative in Chiapas, Mexico.

Concern for Community is one of the Cooperative Principles. The Board's commitment to the Hanover Cooperative Community Fund, our vehicle for raising money to invest and to distribute to local charitable organizations, is at the core of the Board's efforts to carry out this principle. We are working with management to consolidate and better coordinate the Co-op's many and varied additional charitable activities, so we can make the delivery of assistance more efficient and create a usable platform from which to engage members in this important Co-op activity.

The Community Market showed significant progress in operating earnings. The new manager, who has much operating experience in food service, has made changes and will continue to re-evaluate progress. We will keep watch on how things are going as we make the improvements necessary to meet our objectives for the store.

The Food For All program was launched at the end of the year and is starting to gain traction. Many of our Board members have heard reports from other co-ops as to how this program has helped in their communities and we are looking forward to its continued success.

This year brought some challenges with Member Engagement which offered the Board, management, staff, and members opportunities to better understand their specific roles in the Co-op's operations and to determine how these roles fit together. We heard from members on a variety of issues, some of which they felt very strongly about. We also heard from members in a variety of ways, through letters, a petition, emails, and in person at regular comment periods at our monthly board meetings. While responding to some of these issues in the short-term, we have also kept our eye on the long-term ramifications and possible consequences of Board actions such as policy revision. Exploring productive Member Engagement continues to be a priority for our Board.

In a year that saw the 170th Anniversary of the Rochdale Pioneers, the founders of our modern cooperative movement, we have worked to make our foundation stronger. In a time of transition in our own co-op and in the grocery business in general, we continue to work towards meeting our stated Ends in an atmosphere of understanding and cooperation.

General Manager's Report

BY TERRY APPLEBY

General Manager

All operating units were profitable except for the Market...indications are that a break-even year is a strong possibility for 2015.

2014 was a year of continuing change and challenges at the Hanover Co-op. In April members voted overwhelmingly to authorize the funds for a long-overdue remodel and expansion of the Hanover store. Following the authorization vote, management was able to begin work with Jim Wasser and his team at Studio Nexus to plan and design the project. The ReArch Company of South Burlington, Vermont, was contracted to provide the general contracting for the job. Throughout the summer and fall, we went through the permitting process, and, after clearing up some long-standing property boundary issues with Dartmouth College and receiving the go-ahead from the Town of Hanover, we were able to break ground in November for the new addition to the building. During the holidays, work proceeded on the exterior of the building and in the store's basement. Work on the interior started in earnest in early January and is expected to last until the late summer of 2015. Co-op staff greatly appreciate the level of support shown by members to this project.

Two thousand fourteen was a 53-week fiscal year, something that comes up every few years to align our fiscal year with the calendar and requirements of our bylaws. Food store sales increased slightly for the year, while sales at the Service Center increased significantly. All operating units of the Co-op were profitable except for the Community Market on Lyme Road in Ha-

novor. While the Community Market suffered a net loss for the year, great strides were made toward profitability, and indications are that a break-even year is a strong possibility for 2015. Overall, the Co-op had a profitable year, with earnings before taxes and patronage refund of 1.1 percent.

In February, new monthly member discount days were initiated and proved to be very popular. The discounts provided over \$400,000 in savings for members over the course of the year. Their popularity helped to drive new memberships in the Co-op to the highest annual levels in several years, with a net increase in memberships of 1,223. There are now over 30,000 members of our Co-op!

During the year we also started a new program called Food For All that provides discounts to members on a needs basis. The program is easy to access and is confidential for users.

We were sorry to say goodbye to Loretta Land, the Co-op's longtime Director of Human Resources, who left her position during the year. Loretta provided many years of dedicated service to Co-op staff and will be greatly missed by her many friends within the organization. Lori Hildbrand was hired on an interim basis as the HR Director and was made the permanent Director at the end of the year. Lori focused much of her work in 2014

in working with Professional Development Manager Paul Lambe on issues related to training and staff development. Special attention was paid to supervisory and management skills. Paul and Lori also created an exciting new model of staff training to be rolled out over the next two years. The work they are doing is complementing other efforts at the Co-op to improve the overall culture of the workplace. We will gauge how we are doing with that work with the results of an employee survey due out in early spring of 2015.

Also leaving the Co-op in 2014 were two mainstays of our Front End Department in the Hanover store, Pat Farley and Linda Marchetti. Pat informed us that she could happily watch the snow fly this winter, knowing she did not have to make the 40-mile drive to work. We salute them both for the many years of dedicated service to our members!

Thank you for your support of the Co-op during 2014!

Cooperative Commerce for the Greater Good

2014 Highlights

FOOD ACCESS AND EDUCATION

Amount dedicated to food access and education

\$467,043 | .67% of
store sales

Estimated dollar value for food donations to
Willing Hands

\$289,631 | .42% of
store sales

Food safety—ServSafe™ certifications

115 Staff members currently certified

35 | Co-op staff members
certified in 2014

The Co-op is a national leader in the number of ServSafe®-certified staff, prompting a visiting FDA official to the Upper Valley to state that he had never seen such a commitment to, and high level of, staff training.



“This year I had the privilege to see for myself the intricate and efficient web of deliveries that Willing Hands arranges. One of the most delightful parts was the smiles from the grateful recipients.”

~ Mary Saucier Choate
Co-op Dietitian and Food and Nutrition Educator

ECONOMIC VALUE RETURNED TO THE COMMUNITY

Amount of value returned to our community

> \$9,000,000

Amount purchased by Co-op from small family farms, and local and regional producers

\$8,739,859 | Local partnerships

Amount donated in the form of charitable giving and volunteer hours

> \$75,000 | Charitable giving



COOPERATIVE PARTNERSHIPS

Amount invested in cooperative partnerships
Nearly \$1.5 million invested over the years

\$712,416 | 1% of store sales

Amount purchased from Fair Trade co-ops

\$581,454 | Fair Trade cooperatives

Amount donated through the Hanover Cooperative Community Fund
Current endowment is more than \$340,000.

\$9,379 | Donated to local charities

2014 Recipients: Grafton County Senior Citizens Council, WinCycle, Second Growth, Health Connections, Project VetCare, Upper Valley Business and Education Partnership, Compassionate Friends, Headrest

ENVIRONMENTAL STEWARDSHIP

Amount of recycled e-waste during our collection event

35,000 lb. | E-waste recycled

Amount we reduced our carbon footprint
It would take one year for 96 acres of forest to sequester that much carbon.

117 tons | Carbon reduction

Amount of food diverted from landfill

869,885 lb. | Food diverted

Number of evacuated tube solar hot water collectors installed on Lebanon store's roof.

15 | Solar hot water collectors

This system is expected to save the Co-op more than 500 tons of carbon emissions over its lifespan. That's like planting more than 12,000 trees.

Our e-waste collection event has become a popular Upper Valley tradition.



EMPLOYMENT AND JOB QUALITY

Amount invested in the Co-op's staff

This figure is \$3.7 million higher than the average conventional chain grocery store with the same sales.

\$14,174,000 | 20.4 % of store sales

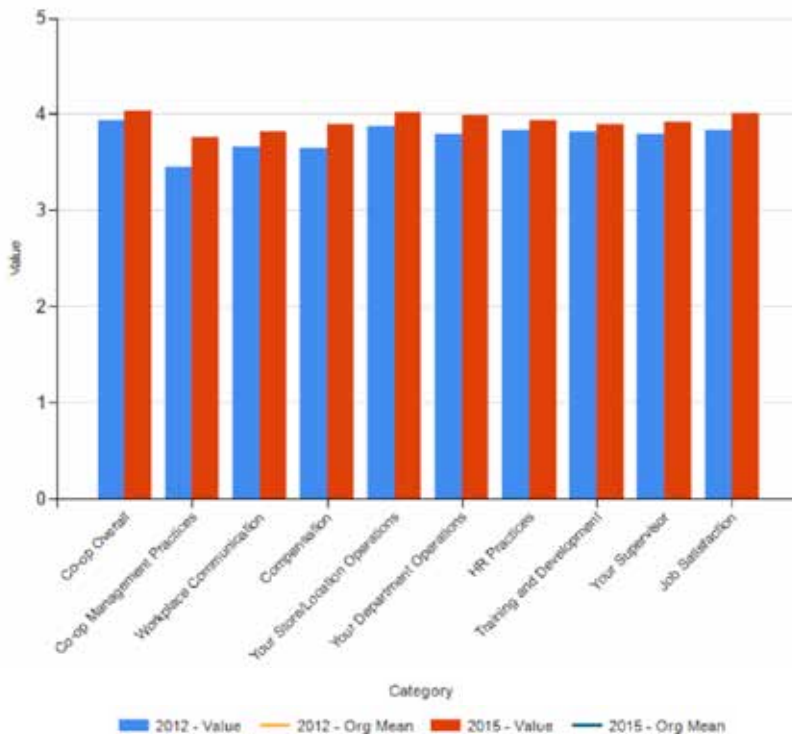
Hours spent on training and development

Our 2015 plan will push our training hours to more than 7,500 for the year.

> 2,900 | Training hours



Survey chart showing staff satisfaction



2015 STAFF SURVEY

- Accurate, non-anecdotal data on staff satisfaction
- Identify Co-op's strengths and weakness as an employer
- What do the scores mean?
4.0 or higher—high satisfaction
3.5 or higher—relative satisfaction
- 306 out of 336 employees participated in this anonymous/confidential third-party-administered survey.

Co-op Financials

Despite challenges, Fiscal Year 2014, which ended on January 3, 2015, was a financially productive year for the Hanover Co-op.

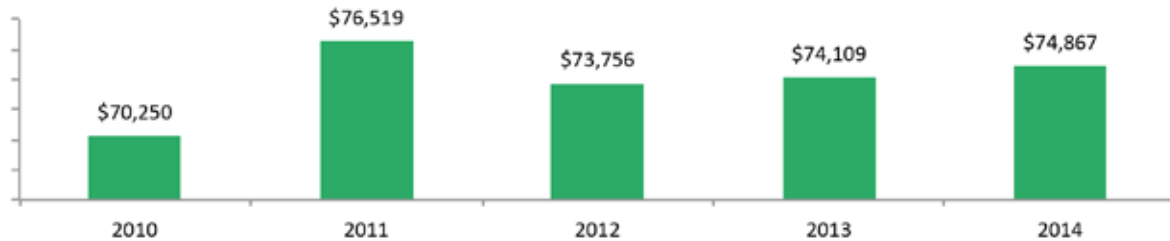
Despite challenges, Fiscal Year 2014, which ended on January 3, 2015, was a financially productive year for the Hanover Co-op. New financial rewards for membership were extremely popular with members, while much of the operational focus for the year was preparation for the long-overdue major renovation to the Hanover store. As projected, the renovation had a temporary negative impact on the Co-op's balance sheet and cash flow.

INCOME STATEMENT	2014			2013		
Net sales	\$	74,867,478	100.0%	\$	74,109,483	100.0%
Cost of Goods Sold		50,864,374	67.9%		50,173,018	67.7%
Gross Profit Margin		24,003,104	32.1%		23,936,465	32.3%
Store Wages & Benefits		12,008,575	16.0%		11,931,403	16.1%
Contribution Margin		11,994,529	16.0%		12,005,062	16.2%
Other Overhead Expense		5,714,347	7.6%		5,550,939	7.5%
General & Administrative Expenses		5,442,084	7.3%		5,681,128	7.7%
Total Operating Expenses		23,165,006	30.9%		23,163,470	31.3%
Savings from Operations		838,098	1.1%		772,995	1.0%
Interest Income		26,604	0.0%		29,953	0.0%
Interest Expense		-23,753	0.0%		-45,685	-0.1%
Miscellaneous Income		2,634	0.0%		48,135	0.1%
Savings Before Taxes & Patronage Refund		843,583	1.1%		805,398	1.1%
Patronage Refund		-501,179	-0.7%		-496,168	-0.7%
Income Taxes		-172,371	-0.2%		-174,853	-0.2%
Net Savings	\$	170,033	0.2%	\$	134,377	0.2%

While sales grew by one percent over the prior year, this was largely due to the fact that FY2014 was a 53-week year. On an adjusted basis, overall sales fell by 0.78 percent from the prior year, largely due to continued competitive pressures and disruptions due to the start of renovations to the Hanover store. Margins held relatively steady, and costs as a percent of sales were well controlled, leading to very solid Savings from Operations and Savings Before Taxes and Patronage numbers.

Consolidated Co-op Sales

(in millions)



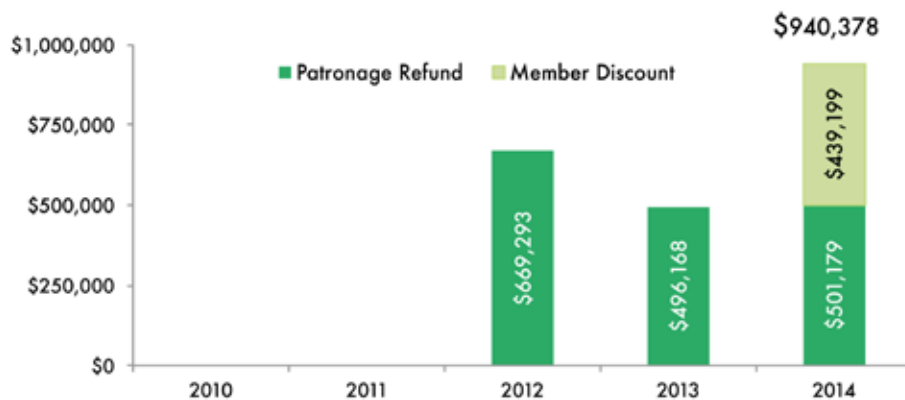
BALANCE SHEET	2014	2013
Cash	\$ 516,117	\$ 959,242
Receivables	394,829	345,876
Inventory	1,960,228	2,295,164
Other Current Assets	431,739	342,226
Total Current Assets	3,302,913	3,942,508
Property & Equipment, Net	6,859,987	6,112,757
Other Assets	1,591,323	1,490,845
Total Assets	11,754,223	11,546,110
Accounts Payable	2,111,632	2,012,399
Notes Payable - Current	325,914	302,043
Other Current Liabilities	1,706,714	1,757,771
Total Current Liabilities	4,144,260	4,072,213
Long-Term Debt	37,769	647,564
Other Long-Term Liabilities	671,668	523,500
Total Liabilities	4,853,697	5,243,277
Members Equity	3,365,766	2,938,107
Donated Capital	42,966	42,966
Retained Savings	3,491,794	3,321,760
Total Equity	6,900,526	6,302,833
Total Liabilities & Equity	\$ 11,754,223	\$ 11,546,110

The Co-op's Balance Sheet for the year ended January 3, 2015 was not as strong as at year-end 2013 primarily due to the renovation project at the Hanover store. Financing for the project required the Co-op's contribution to the project to come up front, resulting in a decrease in cash reserves at the Co-op, negatively impacting working capital. All of this was in line with projections put forth when presenting the project for approval. During the year, debt was reduced to a point where the balance remaining on the loan used to renovate the Community Market will be paid off in slightly over one year. New borrowings to support the Hanover store renovation project will not start until 2015. New owners joining the Co-op, as well as the retained portion of the 2013 Patronage Refund, helped contribute to the increase in equity during the year.

CASH FLOW	2014		2013	
<i>From Operating Activities</i>				
Net Savings	\$	170,034	\$	134,377
Depreciation & Amortization		957,567		943,297
(Increase) Decrease in Inventory		334,936		33,723
Patronage Refund Declared		501,178		496,168
Patronage Received		-148,395		-101,103
(Increase) Decrease in Other Current Assets		-274,816		152,392
Increase (Decrease) in Current Liabilities		196,025		-708,797
Cash Flow from Operations		1,736,529		950,057
<i>From Investing Activities</i>				
Capital Expenditures		-1,461,329		-1,240,262
(Increase) Decrease in Other Assets		88,967		26,359
Cash Flow from Investing Activities		-1,372,362		-1,213,903
<i>From Financing Activities</i>				
Increase (Decrease) in Long-Term Debt		-585,924		-289,623
Patronage Refund Liability Paid		-248,084		-334,646
Increase (Decrease) in Equity		26,716		22,653
Cash Flow from Financing Activities		-807,292		-601,616
Total Cash Flow		-443,125		-865,462
Beginning Cash & Cash Equivalents		959,242		1,824,704
Ending Cash & Cash Equivalents	\$	516,117	\$	959,242

As shown on the Balance Sheet, the Co-op used cash during the year, evidenced in the Cash Flow Statement above. While cash generated from operations was strong, this cash was used to begin the renovation project and to continue to pay down existing debt. The new financing for the Hanover store renovation project will not start until FY 2015. Over the past five years, the Co-op has reinvested approximately \$5.6 million back into the business all while paying down existing (and without incurring additional) debt.

Total Financial Return to Members



Based on 2014 results, the Co-op will issue a patronage refund totaling \$501,179 in cash and shares. When combined with the member discount of \$439,199 enjoyed by 14,680 members for the first time last year, 2014 represents the largest dollar return ever to Co-op members – over \$940,000!