FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

AND SUPPLEMENTAL INFORMATION

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

DECEMBER 30, 2017 AND DECEMBER 31, 2016

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

DECEMBER 30, 2017 AND DECEMBER 31, 2016

CONTENTS

GALLAGHER, FLYNN & COMPANY, LLP
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Independent Auditor's Report

To the Members and
Board of Directors of
Hanover Consumer Cooperative Society, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Hanover Consumer Cooperative Society, Inc., (the Cooperative) which comprise the balance sheets as of December 30, 2017 and December 31, 2016, and the related statements of operations, members' equity and cash flows for the fifty-two week periods then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cooperative as of December 30, 2017 and December 31, 2016, and the results of its operations and its cash flows for the fifty-two week periods then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information included in the Schedule of Operating Expenses and the Schedule of General and Administrative Expenses for the fifty-two week periods ended December 30, 2017 and December 31, 2016 are presented for purposes of additional analysis and are not a required part of the financial statements. The scope of our audit of the financial statements was not sufficient to enable us to express an opinion on the supplementary information referred to above and accordingly it is inappropriate to and we do not express an opinion on such supplementary information.

Gallagher, Flynn & Company, LLP

March 7, 2018

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

BALANCE SHEETS

DECEMBER 30, 2017 AND DECEMBER 31, 2016

A S S E T S

	December 30, 2017	December 31, 2016
CURRENT ASSETS		
Cash and cash equivalents	$ 1,798,424	$ 1,336,288
Certificates of indebtedness, current portion	90,353	93,449
Accounts receivable - trade and other	535,564	363,188
Inventories	2,121,772	2,072,413
Refundable income tax prepayments	44,892	226,654
Deferred income taxes	41,900	48,800
Other current assets	205,188	276,754
Total current assets	4,838,093	4,417,546
PROPERTY AND EQUIPMENT, at cost		
Land and improvements	342,189	342,189
Buildings and improvements	11,840,557	11,840,557
Machinery and equipment	11,504,965	10,853,963
	23,687,711	23,036,709
Less accumulated depreciation and amortization	14,909,125	13,778,772
	8,778,586	9,257,937
Construction in progress	58,966	10,415
	8,837,552	9,268,352
OTHER ASSETS		
Investments in other cooperative associations	1,502,678	1,313,934
Certificates of indebtedness, less current portion	157,212	247,565
Other	56,228	62,527
	1,716,118	1,624,026
	$ 15,391,763	$15,309,924

The accompanying notes are an integral part of these statements.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

BALANCE SHEETS

DECEMBER 30, 2017 AND DECEMBER 31, 2016

LIABILITIES AND MEMBERS' EQUITY

	December 30, 2017	December 31, 2016
CURRENT LIABILITIES		
Current maturities of long-term debt	$ 408,316	$ 324,993
Accounts payable	2,827,405	2,548,802
Accrued payroll and benefits	778,124	760,153
Accrued expenses	567,749	616,252
Income taxes payable	-	15,299
Total current liabilities	4,581,594	4,265,499
OTHER NON-CURRENT LIABILITY	282,131	282,131
LONG-TERM DEBT, less current maturities	3,165,324	3,280,234
DEFERRED INCOME TAXES	304,700	605,200
MANDATORILY REDEEMABLE STOCK	36,836	-
MEMBERS' EQUITY		
Capital stock	3,078,893	3,106,799
Donated capital	315,500	315,500
Retained earnings	3,626,785	3,454,561
	7,021,178	6,876,860
	$ 15,391,763	$15,309,924

The accompanying notes are an integral part of these statements.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

STATEMENTS OF OPERATIONS

FIFTY-TWO WEEK PERIODS ENDED DECEMBER 30, 2017 AND DECEMBER 31, 2016

	December 30, 2017	December 31, 2016
NET REVENUES	$72,013,580	$71,555,883
COST OF SALES	48,748,971	48,117,615
GROSS PROFIT	23,264,609	23,438,268
OPERATING EXPENSES	23,300,719	23,463,516
LOSS FROM OPERATIONS	(36,110)	(25,248)
OTHER (INCOME) EXPENSE		
Interest expense	178,943	186,952
Interest income	(11,014)	(13,302)
Other income	(161,722)	(74,596)
	6,207	99,054
LOSS BEFORE INCOME TAXES	(42,317)	(124,302)
BENEFIT FROM INCOME TAXES	(214,541)	(6,027)
NET EARNINGS (LOSS)	$ 172,224	$ (118,275)

The accompanying notes are an integral part of these statements.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

STATEMENTS OF MEMBERS' EQUITY

FIFTY-TWO WEEK PERIODS ENDED DECEMBER 30, 2017 AND DECEMBER 31, 2016

	Capital Stock								
	Class A Common Stock		Class B Common Stock		Partial Share				
	Shares	Value	Shares	Value	Credits	Total	Donated Capital	Retained Earnings	Total
BALANCE, January 3, 2016	588,120	$ 2,940,600	68,474	$ 342,370	$ 95,371	$ 3,378,341	$ 50,693	$ 3,572,836	$ 7,001,870
Net loss	-	-	-	-	-	-	-	(118,275)	(118,275)
Shares cancelled	(52,611)	(263,055)	-	-	(1,752)	(264,807)	264,807	-	-
Shares issued, net of redemptions	(1,855)	(9,274)	-	-	2,539	(6,735)	-	-	(6,735)
BALANCE, December 31, 2016	533,654	2,668,271	68,474	342,370	96,158	3,106,799	315,500	3,454,561	6,876,860
Net earnings	-	-	-	-	-	-	-	172,224	172,224
Class B shares exchanged (see Note H)	-	-	(6,942)	(34,710)	(2,126)	(36,836)	-	-	(36,836)
Shares isued, net of redemptions	3,347	16,735	(1,378)	(6,890)	(915)	8,930	-	-	8,930
BALANCE, December 30, 2017	537,001	$ 2,685,006	60,154	$ 300,770	$ 93,117	$ 3,078,893	$ 315,500	$ 3,626,785	$ 7,021,178

The accompanying notes are an integral part of these statements.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

STATEMENTS OF CASH FLOWS

FIFTY-TWO WEEK PERIODS ENDED DECEMBER 30, 2017 AND DECEMBER 31, 2016

	December 30, 2017	December 31, 2016
INCREASE IN CASH AND CASH EQUIVALENTS		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings (loss)	$ 172,224	$ (118,275)
Noncash items included in net earnings (loss):		
Depreciation and amortization	1,136,376	1,223,584
Patronage investments in cooperatives	(50,821)	(73,425)
Reversal of valuation reserve on investments in cooperatives	(137,923)	-
Deferred income taxes	(293,600)	(80,800)
Changes in assets and liabilities:		
Accounts receivable	(172,376)	6,650
Inventory	(49,359)	(72,344)
Income taxes receivable	181,762	5,508
Other current assets	71,566	60,279
Accounts payable	278,603	137,910
Accrued expenses and other current liabilities	(30,532)	75,778
Income taxes payable	(15,299)	15,299
	918,397	1,298,439
Net cash provided by operating activities	1,090,621	1,180,164
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(699,277)	(148,725)
Proceeds from repayments of certificates of indebtedness	93,449	56,201
Net cash used in investing activities	(605,828)	(92,524)
Subtotal (forward)	$ 484,793	$ 1,087,640

(CONTINUED)

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

STATEMENTS OF CASH FLOWS

FIFTY-TWO WEEK PERIODS ENDED DECEMBER 30, 2017 AND DECEMBER 31, 2016

	December 30, 2017	December 31, 2016
Subtotal (forwarded)	$ 484,793	$ 1,087,640
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term debt	350,000	45,253
Principal payments on long-term debt	(381,587)	(317,887)
Proceeds from issuance (payments for repurchase) of capital stock, net	8,930	(6,735)
Net cash used in financing activities	(22,657)	(279,369)
Net increase in cash and cash equivalents	462,136	808,271
CASH AND CASH EQUIVALENTS, beginning of period	1,336,288	528,017
CASH AND CASH EQUIVALENTS, end of period	$ 1,798,424	$ 1,336,288
Supplemental Disclosures of Cash Flows Information		
Cash paid (received) during the period for:		
Interest expense	$ 177,868	$ 185,425
Income taxes	$ (87,404)	$ 42,023

The accompanying notes are an integral part of these statements.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES

Operations:

The Hanover Consumer Cooperative Society, Inc., (the Cooperative) was incorporated in New Hampshire in 1937. The Cooperative operates member-owned food stores in Hanover and Lebanon, New Hampshire, and White River Junction, Vermont, a community market in Hanover, New Hampshire, and an automobile service center in Hanover, New Hampshire, which are open to its members and the general public. In addition, the Cooperative operates a commissary kitchen in Wilder, Vermont, which prepares food products for resale through the Cooperative's food stores. The majority of sales are to members of the Cooperative. Sales to members were approximately 74% and 75% of total sales for the fifty-two week periods ending December 30, 2017 and December 31, 2016, respectively. Sales of grocery-related items were 95% of total sales in 2017 and 2016, and sales of automobile fuel and repair services were 5% of total sales in 2017 and 2016.

Accounting policies:

A summary of the Cooperative's significant accounting policies applied in the preparation of the accompanying financial statements follows:

1. Fiscal year end

The Cooperative's fiscal year ends on the Saturday nearest to December 31. The fiscal periods ended December 30, 2017 and December 31, 2016 included fifty-two weeks.

2. Cash and cash equivalents

For purpose of the statement of cash flows, the Cooperative considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

3. Accounts receivable

Trade accounts are stated at the amount the Cooperative expects to collect from sales of products. Other receivables consist of volume rebates due from various suppliers and reimbursements from the Cooperative's insurance company for excess medical claims paid during 2017. The Cooperative maintains allowances for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments. Management considers the following factors when determining the collectability of these receivables: customer creditworthiness, programmatic discounts and allowances, past transaction history, current economic industry trends, and changes in payment terms. If the financial condition of the Cooperative's customers was to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Cooperative provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. At December 30, 2017 and December 31, 2016, no allowance was required.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

3. Accounts receivable (continued)

Accounts receivable – trade and other consists of the following at December 30, 2017 and December 31, 2016:

	2017	2016
Trade receivables	$ 185,487	$ 190,229
Other receivables	350,077	172,959
Total	$ 535,564	$ 363,188

4. Inventory

Inventory is stated at the lower of cost or net realizable value. Cost is determined principally by the first-in-first out (FIFO) method.

5. Property and equipment

Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever are shorter. The straight-line method of depreciation is followed for substantially all assets for financial reporting purposes, but accelerated methods are used for tax purposes.

6. Impairment of long-lived assets

Long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows. An impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. During 2017 and 2016, no significant impairment loss was required to be recognized.

7. Investment in other cooperative associations

Nonmarketable investments in cooperative associations are carried at cost and are evaluated for impairment annually to adjust the investments to their net realizable value. During 2017 and 2016, no impairment loss was required to be recognized. The Cooperative recognized gains of $137,923 in 2017 and $0 in 2016 to derecognize valuation allowances recognized in previous years.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

8. Mandatorily redeemable stock

Mandatorily redeemable stock (Note H), is recorded as a liability at its estimated fair value upon issuance and is remeasured and accreted annually to its redemption amount through charges to interest expense.

9. Income taxes

Temporary differences giving rise to deferred income taxes consist primarily of the excess of depreciation for tax purposes over the amount for financial reporting purposes, an impairment write-down recognized for financial reporting purposes not for tax purposes, accrued compensation, patronage refunds earned on investments in other cooperatives, and certain expenses which are reported differently for financial reporting and tax purposes.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statements of earnings.

10. Advertising expenses

Advertising costs are charged to operations when incurred. Advertising expense was approximately $74,500 and $105,700 for the periods ended December 30, 2017 and December 31, 2016, respectively.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

11. Use of estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

12. Recently issued accounting pronouncements

The Cooperative is currently evaluating the impact of adopting the following recently issued accounting pronouncements:

Balance Sheet Classification of Deferred Taxes

In November 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes.* Per the ASU, deferred income tax assets and liabilities will no longer be separated into current and noncurrent amounts in a classified balance sheet. The recognition and measurement guidance for deferred income taxes are not affected by the new guidance. This ASU is effective for years beginning after December 15, 2017, and may be implemented on a prospective or retrospective basis.

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which provides a robust framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles. The revenue recognition policies of almost all entities will be affected by the new guidance in the ASU. The degree to which an entity's revenue recognition policies will change upon the adoption of the ASU, and the effects the changes will have on the entity's financial statements, will vary depending on the nature and terms of the entity's revenue-generating transactions. In addition, entities in some industries likely will be affected by the new guidance in the ASU more than entities in other industries. Given the broad applicability and potentially significant ramifications of the guidance in the ASU, the FASB provided significantly delayed effective dates for its guidance. The ASU is effective for years beginning after December 15, 2018.

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

12. Recently issued accounting pronouncements (continued)

Leases

In February 2016, the FASB issued ASU 2016-02 *Leases (Topic 842)*. This ASU was issued in three parts: (a) Section A, Leases: Amendments to the FASB *Accounting Standards Codification*, (b) Section B, Conforming Amendments Related to Leases: Amendments to the FASB *Accounting Standards Codification*, and (c) Section C, Background Information and Basis for Conclusions. While both lessees and lessors are affected by the new guidance which includes many changes, the effects on lessees are much more significant. The most significant change for lessees is the requirement to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases, affecting leases which previously were accounted for as operating leases. This ASU is effective for years beginning after December 15, 2019, and must be implemented using a modified retrospective approach.

13. Evaluation of subsequent events

In preparing these financial statements, the Cooperative has evaluated events and transactions for potential recognition or disclosure through March 7, 2018, the date the financial statements were available to be issued.

B) CONCENTRATION OF CREDIT RISK

The Cooperative maintains bank account balances which, at times, may exceed federally insured limits. The Cooperative has mitigated its concentration of credit risk relative to its cash balances by entering into an overnight repurchase agreement with its financial institution. The Cooperative has not experienced any losses with these accounts. Management believes the Cooperative is not exposed to any significant credit risk on cash.

C) CERTIFICATES OF INDEBTEDNESS

Certificates of indebtedness primarily consist of amounts due from Associated Grocers of New England, Inc., (AGNE), a cooperative in which the Cooperative is a member (see Note D). The Cooperative receives certificates of indebtedness from AGNE to satisfy patronage rebates. Interest rates range from 3.25% to 3.5%, maturing at various times through June 2020. Amounts receivable under these agreements totaled $247,565 and $341,014 at December 30, 2017 and December 31, 2016, respectively. The Cooperative evaluates collectability by evaluating the financial condition of AGNE and provides for estimated uncollectible amounts through a charge to operations and a credit to a valuation allowance, if warranted. At December 30, 2017 and December 31, 2016, no valuation allowance was required.

At December 30, 2017 certificates of indebtedness mature as follows:

Fiscal Periods Ending on or Around December 31,	Amount
2018	$ 90,353
2019	78,560
2020	78,652
	$ 247,565

D) INVESTMENTS IN OTHER COOPERATIVE ASSOCIATIONS

The investments in cooperative associations are nonmarketable investments, which consist of the following at:

	December 30, 2017	December 31, 2016
National Consumer Cooperative Bank (NCCB): NCCB is a financial services cooperative, the parent company of its wholly-owned subsidiary, National Cooperative Bank, N.A. (Note F). At December 30, 2017 and December 31, 2016, the Cooperative owned 2,027 shares of Class C stock, which represent the cumulative amount of shares issued as patronage refunds over the course of its financing agreements with NCCB (Note F). NCCB provides members with patronage rebates in cash and shares of Class B2 and C stock in connection with its patronage-based loans from NCCB. The Cooperative recognizes patronage rebates earned in Class C stock, which is eligible to pay cash dividends, nonredeemable, and transferable to other eligible members, subject to approval. The Cooperative also receives and holds Class B2 stock, which does not pay dividends, is nonredeemable, and is nontransferable; therefore, the Cooperative does not recognize any value for Class B2 stock received. There were no patronage rebates issued during 2017 or 2016.	$ 202,701	$ 202,701
Associated Grocers of New England, Inc. (AGNE): AGNE is a consumer goods membership cooperative that provides members with discounted purchase pricing and annual patronage rebates in cash, certificates of indebtedness (see Note C), and patronage shares. Members initially purchase one share of Class A stock at $5,000 and purchase additional shares of Class B stock annually based on total merchandise purchases. Class A and B stock are eligible to pay cash dividends and are redeemable in the event that the Cooperative terminates membership, as defined. The Cooperative owns three shares of Class A stock at December 30, 2017 and December 31, 2016. The Cooperative owns 5,435 shares of Class B stock at December 30, 2017 and December 31, 2016.	784,059	784,059
Subtotal (forward)	$ 986,760	$ 986,760

D) INVESTMENTS IN OTHER COOPERATIVE ASSOCIATIONS (continued)

	December 30, 2017	December 31, 2016
Subtotal (forwarded)	$ 986,760	$ 986,760
National Coop Grocers (NCG):		
NCG is a consumer goods cooperative that requires members to purchase one share of voting stock at $500, plus a base equity investment of 0.1% of annual purchases, and provides members with discounted purchase pricing and annual patronage rebates, a percentage of which is retained as equity and is redeemable at the discretion of the NCG board of directors. Net of valuation allowances of $0 as of December 30, 2017 and $137,923 as of December 31, 2016.	499,812	320,209
Other	16,106	6,965
	$ 1,502,678	$ 1,313,934

E) NOTES PAYABLE

The Cooperative has a $1,000,000 revolving line of credit with the Ledyard Bank due December 2019. Interest is payable monthly at *The Wall Street Journal* prime rate (4.5% at December 30, 2017). The note is secured by a first mortgage on certain real property and substantially all business assets of the Cooperative. There were no borrowings related to this agreement outstanding at December 30, 2017 or December 31, 2016.

F) LONG-TERM DEBT

Long-term debt consists of the following at:

	December 30, 2017	December 31, 2016
National Cooperative Bank, N.A. - Payable in monthly installments of $40,727 including interest at the greater of 5% or the Ten-Year U.S. Treasury Note Yield, plus 2.5% due February 2026. The note is secured by a first mortgage on certain property and certain personal property, and a second security interest in substantially all other assets, and subject to certain financial ratios, as defined.	$ 3,247,692	$ 3,564,011
Ledyard National Bank - Payable in monthly installments of $6,525 including interest at 4.50% due January 2022. The note is secured by equipment and a second security interest in substantially all other assets.	291,554	-
Ally Bank - Payable in monthly installments of $730, with a 4.99% interest rate, due June 2022. Secured by a vehicle.	34,394	41,216
	3,573,640	3,605,227
Principal payments due within one year	408,316	324,993
	$ 3,165,324	$ 3,280,234

F) LONG-TERM DEBT (continued)

As of December 30, 2017, long-term debt matures as follows:

Fiscal Periods Ending on or Around December 31,	Amount
2018	$ 408,316
2019	429,908
2020	451,182
2021	474,238
2022	419,493
Thereafter	1,390,503
	$ 3,573,640

G) INCOME TAXES

The benefit from income taxes consists of the following:

	December 30, 2017	December 31, 2016
Currently payable	$ 79,059	$ 74,773
Deferred	(293,600)	(80,800)
	$ (214,541)	$ (6,027)

G) INCOME TAXES (continued)

Deferred tax assets and liabilities consist of the following at:

	December 30, 2017	December 31, 2016
Deferred tax assets:		
Inventory valuation	$ 7,600	$ 11,900
Accrued compensation	11,700	41,800
Unclaimed patronage refund	29,700	46,800
Federal net operating loss carryforward	125,800	99,600
Other	45,800	55,900
	$ 220,600	$ 256,000
Deferred tax liabilities:		
Depreciation and impairment write down	$ 420,300	$ 597,200
Patronage refunds on investments in other cooperatives	16,900	113,800
Prepaid expenses	46,200	101,400
	$ 483,400	$ 812,400

On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act. Effects of tax law changes are accounted for in the period of enactment and deferred tax assets and liabilities are required to be adjusted to reflect the effect of a change in enacted tax rates in the period in which the law is enacted. The U.S federal corporate tax rate was reduced to 21%, which will be effective as of January 1, 2018. The impact of applying the new tax rate to deferred taxes is reflected in 2017 as a deferred tax benefit of approximately $175,000. The impact of other tax law changes is not expected to have a material impact on the Cooperative.

The Cooperative has net operating losses of approximately $567,000 available to reduce future federal taxable income through 2037. The Company has net operating loss carryforwards for which deferred tax assets have been provided for in previous years. The newly enacted tax law has limited the use of carryforwards to 80% of taxable income in a given year, which is not expected to impact the Cooperative's ability to be able to utilize its carryforwards.

The Cooperative's effective income tax rate in the period ended December 30, 2017 is higher than would be expected if the federal statutory rate was applied to earnings primarily because of the derecognition of deferred tax liabilities related to certain income determined to not be taxable in the future, the impact of the change in the federal tax rates, and the State of New Hampshire Business Enterprise tax being accounted for as an income tax. The Cooperative's effective income tax rate in the period ended December 31, 2016, is higher than would be expected if the federal statutory rate was applied to earnings primarily because the State of New Hampshire Business Enterprise tax is accounted for as an income tax.

G) INCOME TAXES (continued)

The Cooperative files income tax returns in the U.S. federal jurisdiction and two state jurisdictions. With few exceptions, the Cooperative is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for fiscal periods before December 31, 2014.

During the periods ended December 30, 2017 and December 31, 2016, the Cooperative recognized no interest or penalties related to unrecognized tax benefits.

H) MEMBERS' EQUITY

The Cooperative's legal organization is determined by federal and state laws and by its Bylaws and Certificate of Organization.

Capital stock:

The Bylaws (pursuant to the revision adopted effective May 1, 2017) and Certificate of Organization authorizes 2,000,000 shares of stock, consisting of two classes: Class A are issued in consideration of becoming a member of the cooperative, are voting, and have a $5 par value. Class B shares may be issued to members as patronage refunds in lieu of cash payments, are non-voting, have a $5 par value, and may or may not have a fixed maturity date. Prior to the Bylaw revision effective May 1, 2017, the Class B shares did not have the option of having fixed maturity dates. Dividends are not paid on either Class A or Class B stock. Partial share credits are comprised of amounts credited to patron's capital accounts until such amounts are sufficient to purchase the minimum number of shares required to be a member.

Membership:

Individuals and corporations are required to own at least 10 Class A shares in order to be a member. Any person owning fewer than ten shares is considered to be "a subscriber." Prior to October 28, 2016, individuals and organizations owning three or more, but less than ten Class A shares, were voting members.

Exchange of Class B shares:

On May 24, 2017 and effective May 1, 2017, the Board of Directors approved an exchange of "new Class B shares", which have a ten-year maturity from the date of issuance for previously-issued and outstanding Class B shares ("current Class B shares"), which have no fixed maturity date. The Cooperative is required to redeem the new Class B shares for $5 per share upon maturity. Members holding current Class B shares have until May 1, 2022 to exchange current Class B shares for new Class B shares, after which date any remaining current Class B shares will be cancelled and the associated capital will revert to the Cooperative.

H) MEMBERS' EQUITY (continued)

During 2017, members exchanged 6,943 current Class B shares for new Class B shares, which resulted in the reclassification of $36,836 from capital stock to mandatorily redeemable stock, which is a non-current liability. As of December 30, 2017, there are 60,154 shares of current Class B shares authorized and outstanding representing $300,700 of equity that could be reclassified as non-current liabilities upon exchange by members.

Termination of membership:

Members who discontinue membership may request a refund, which may be issued at the discretion of the Board. The Cooperative's By-Laws, in concert with the state of New Hampshire statutes, provide that if a member has not claimed their outstanding patronage or corresponded with the Cooperative over a five-year period, the Cooperative shall make a good faith effort to contact the member and then, having satisfied the regulations, as defined, terminate such membership and that member's associated capital shall revert to the Cooperative. During 2017, the Cooperative cancelled no shares. During 2016, the Cooperative cancelled 52,611 member shares, resulting in a reduction of $263,055 to Class A common stock and $1,752 of share credits and an increase in donated capital of $264,807.

Patronage refunds:

Patronage refunds are determined under a formula by applying the percentage of sales to members and non-member patrons to calculate member net earnings and non-member net earnings (also known as "savings"). Member net earnings, before the provision for federal income taxes, are then allocated as patronage refunds to each member based on the percentage of that member's purchases to total member purchases. The Board may issue patronage refunds in the form of cash, written notices of allocation, credit towards purchases at the Cooperative, credit towards payment of Class A, or Class B stock, up to 80% of which may be distributed in the form of additional shares or written notices of allocation. A subscriber patron shall receive patronage refunds in the form of credit to the patron's account until the amount is sufficient to acquire ten shares of Class A stock. Non-member patrons may receive patronage refunds in the form of Class A shares in order to obtain the ten share membership requirement and are responsible for providing satisfactory evidence of applicable purchases.

There were no patronage refunds for the periods ended December 30, 2017 and December 31, 2016.

I) COMMITMENTS

Operating leases

The Cooperative leases facilities in Lebanon, New Hampshire, for the operation of a food store through June 2032 with an option to extend an additional twenty years. Base rent currently approximates $66,000 per month, plus 2% of annual gross sales from the Lebanon store in excess of $36,000,000 and an allocation of common area maintenance costs (totaling approximately $253,000 in 2017 and $282,000 in 2016). The base rent is adjusted annually based on the Consumer Price Index (CPI), with a minimum monthly base rent of approximately $73,000 commencing in January 2023 and a minimum monthly base rate of approximately $80,000 commencing in January 2028, as defined.

The Cooperative leases facilities in White River Junction, Vermont, for the operation of a food store through May 2025. Base rent currently approximates $17,000 per month, with an annual 2.5% increase.

The Cooperative leases land upon which the community market in Hanover, New Hampshire, is operated in a building built and owned by the Cooperative. The lease expires February 2034 and contains an option to extend an additional ten years. Base rent is approximately $4,200 per month. The base rent is adjusted annually based on the CPI, as defined. At the end of the lease term, the lessor shall acquire all rights, title and interest in the building.

The Cooperative leases facilities in Wilder, Vermont for the operation of a commissary kitchen through November 2019, with an option to renew the lease for two additional two-year terms. Base rent currently approximates $4,000 per month, adjusted annually based on the CPI, as defined.

The Cooperative leases administrative offices in Hanover, New Hampshire through February 2018. Thereafter, the lease is on a month-to-month basis. Base rent is approximately $9,000 per month adjusted annually based on the CPI, as defined, with a minimum increase of 1% each year, plus an allocation of common area maintenance fees (totaling approximately $77,000 in 2017 and $78,000 in 2016).

I) COMMITMENTS (continued)

Operating leases (continued)

Future minimum lease payments in the aggregate and for each of the next five fiscal years are approximately as follows:

Fiscal Periods Ending on or Around December 31,	Amount
2018	$ 1,111,000
2019	1,116,000
2020	1,118,000
2021	1,079,000
2022	1,084,000
Thereafter	10,352,000
	$15,860,000

The Cooperative had rental expense, which is recognized ratably over the period of the related lease, of approximately $1,530,000 and $1,510,000 for the periods ended December 30, 2017 and December 31, 2016, respectively, which includes contingent rent of $330,000 in 2017 and $360,000 in 2016.

Other non-current liability

In April 2015, the Cooperative entered into an agreement expiring in 2025 with a supplier to purchase a minimum of 1,300,000 gallons per year of liquid petroleum products and to acquire certain equipment valued at $282,000 used in its distribution of petroleum operations. In the event that the Cooperative terminates the supplier agreement prior to June 2020, the Cooperative must pay the supplier full purchase price. Thereafter, the Cooperative's obligation decreases by 20% annually until the agreement expires in 2025, at which time the Cooperative has no further obligation. If the Cooperative retains its supplier agreement, the Cooperative will recognize other income on a straight-line basis over the five-year period beginning June 2020. Accordingly, the Cooperative has recognized amounts of approximately $282,000, related to this agreement in equipment and other non-current liabilities at December 30, 2017 and December 31, 2016.

J) DEFINED CONTRIBUTION PLAN

The Cooperative has a defined contribution plan that covers all eligible employees. The Cooperative participates as an "authorized employer" in the multi-employer Associated Grocers 401(k) Savings Plan (AG Plan) and maintains all employee accounts in the AG Plan. The Plan provides for a guaranteed safe harbor non-elective contribution by the Cooperative equal to 3% of eligible compensation and additional contributions may be made at the discretion of the Cooperative.

The Cooperative recognized pension expense with respect to the Plans of approximately $337,000 and $320,000 in the periods ended December 30, 2017 and December 31, 2016, respectively. There were no discretionary contributions made in the periods ended December 30, 2017 and December 31, 2016.

K) SELF-INSURANCE HEALTH PLAN

In 2016, the Cooperative entered into a self-funded insurance program to provide group health insurance benefits to active employees that includes self-insured retention ("stop loss") levels on individual and aggregate bases. The Cooperative incurred charges to operations of approximately $2,718,000 and $2,788,000 in 2017 and 2016, respectively, in connection with this plan. The financial statements include a liability for claims incurred but not yet reported in the amount of approximately $154,000 and $226,000 as of December 30, 2017 and December 31, 2016, respectively.

L) MAJOR SUPPLIERS

During the period ended December 30, 2017, the Cooperative purchased approximately $20,951,000 (43% of total purchases) of its goods from an unrelated party and AGNE, a related party (see Note D). At December 30, 2017, amounts due to these suppliers, included in accounts payable, totaled approximately $746,000.

During the period ended December 31, 2016, the Cooperative purchased approximately $20,337,000 (42% of total purchases) of its goods from an unrelated party and AGNE, a related party (see Note D). December 31, 2016, amounts due to these suppliers, included in accounts payable, totaled approximately $645,000.

M) RELATED PARTY TRANSACTIONS

The Cooperative is a member of AGNE (see Note D). The Cooperative purchased goods and groceries from AGNE of approximately $12,014,000 and $11,592,000 during the periods ended December 30, 2017 and December 31, 2016, respectively. Amounts due to AGNE, included in accounts payable, were approximately $186,000 and $204,000 at December 30, 2017 and December 31, 2016, respectively. Patronage refunds due from AGNE, included in accounts receivable, were approximately $76,000 and $95,000 at December 30, 2017 and December 31, 2016, respectively.

The Cooperative offers a 20% discount on purchases made by employees and board members. Total gross sales to employees and board members for the periods ended December 30, 2017 and December 31, 2016, were approximately $1,491,000 and $1,438,000, respectively. The discounts on these sales were netted against the gross sales in the statement of operations and approximated $282,000 and $294,000, for the periods ended December 30, 2017 and December 31, 2016, respectively.

Amounts due from members of approximately $156,000 and $140,000 are included in accounts receivable at December 30, 2017 and December 31, 2016, respectively.

SUPPLEMENTAL INFORMATION

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

SCHEDULE OF OPERATING EXPENSES

FIFTY-TWO WEEK PERIODS ENDED DECEMBER 30, 2017 AND DECEMBER 31, 2016

	(Unaudited) December 30, 2017	(Unaudited) December 31, 2016
Store operations expenses:		
Store wages and benefits	$ 11,939,766	$ 12,018,497
Facilities cost	3,090,820	3,132,712
Credit card expenses	1,115,631	1,009,727
Selling and other costs	1,032,857	1,054,316
Equipment costs	770,226	936,634
	17,949,300	18,151,886
General and administrative expenses:		
Information technology department	1,043,807	932,058
Administrative expenses	944,223	925,958
Merchandising expenses	821,266	834,590
Education expenses	794,604	846,660
Finance department	650,340	642,354
Facilities maintenance department	514,999	472,526
Human resources department	430,202	529,432
Board of directors' expenses	128,173	128,052
Public relations	23,805	-
	5,351,419	5,311,630
	$ 23,300,719	$ 23,463,516

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES

FIFTY-TWO WEEK PERIODS ENDED DECEMBER 30, 2017 AND DECEMBER 31, 2016

	(Unaudited) December 30, 2017	(Unaudited) December 31, 2016
Salaries and benefits	$ 3,784,084	$ 3,582,563
Equipment expenses	254,240	243,918
Equipment depreciation	230,699	196,373
Building leases	197,702	189,886
Professional fees	185,371	264,369
Telephone	139,338	129,013
Advertising	91,697	105,679
Consulting fees	83,477	66,931
Dues and subscriptions	63,209	84,485
Meals, entertainment and vehicle reimbursement	43,457	37,291
Education and training	37,364	104,282
Technical maintenance contracts	32,266	75,623
Supplies	28,569	35,662
Occupancy costs	28,246	29,662
Insurance	22,506	18,518
Postage	21,713	21,445
Printing	20,787	30,358
Graphics and promotional expenses	17,481	25,416
Employee relations and programs	12,734	9,421
Software licenses	8,820	8,377
Bank charges	7,103	16,256
Demo expenses	5,431	7,608
Contributions	3,453	8,481
Membership meeting	2,450	5,788
Co-op News	1,961	1,867
Other	27,261	12,358
	$ 5,351,419	$ 5,311,630