



Hanover Consumer Cooperative Society, Inc.

Financial Statements and Supplemental Information

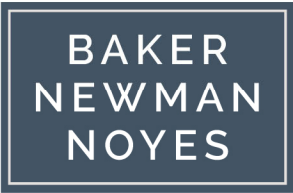
*Years Ended December 30, 2023 and December 31, 2022
With Independent Auditors' Report*

Baker Newman & Noyes LLC

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INDEPENDENT AUDITORS' REPORT

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

Opinion

We have audited the financial statements of Hanover Consumer Cooperative Society, Inc. (the Cooperative), which comprise the balance sheets as of December 30, 2023 and December 31, 2022, the related statements of operations, comprehensive (loss) income, members' equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Cooperative as of December 30, 2023 and December 31, 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Cooperative to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Cooperative's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Cooperative's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Supplemental Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental information is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Baker Newman & Noyes LLC

Manchester, New Hampshire
March 27, 2024

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

BALANCE SHEETS

December 30, 2023 and December 31, 2022

ASSETS

	<u>2023</u>	<u>2022</u>
Current assets:		
Cash and cash equivalents	\$ 1,640,645	\$ 1,814,765
Short-term investments	1,257,556	317,170
Accounts receivable – trade and other	458,976	538,512
Inventories	2,358,369	2,249,744
Other current assets	<u>767,209</u>	<u>654,420</u>
Total current assets	6,482,755	5,574,611
Investments	1,165,088	2,012,772
Property and equipment, at cost:		
Land and improvements	342,189	342,189
Buildings and improvements	14,209,536	14,149,031
Machinery and equipment	15,211,426	14,430,101
Construction in process	<u>413,657</u>	<u>439,496</u>
	30,176,808	29,360,817
Less accumulated depreciation and amortization	<u>(20,255,575)</u>	<u>(19,480,409)</u>
Property and equipment, net	9,921,233	9,880,408
Other assets:		
Operating lease right-of-use assets	23,594,115	25,115,049
Investments in other cooperative associations	1,638,757	1,598,388
Certificates of indebtedness	65,964	65,964
Interest rate swap asset	773,762	927,332
Other	<u>7,111</u>	<u>8,188</u>
Total other assets	<u>26,079,709</u>	<u>27,714,921</u>
Total assets	<u>\$ 43,648,785</u>	<u>\$ 45,182,712</u>

LIABILITIES AND MEMBERS' EQUITY

	<u>2023</u>	<u>2022</u>
Current liabilities:		
Current portion of long-term debt	\$ 191,146	\$ 192,499
Current portion of operating lease liabilities	1,411,175	1,423,958
Accounts payable	2,284,531	2,175,411
Accrued payroll and benefits	468,936	483,323
Accrued expenses	602,056	519,707
Current portion of equipment obligation	<u>56,426</u>	<u>56,426</u>
Total current liabilities	5,014,270	4,851,324
Long-term liabilities:		
Long-term debt, less current portion	5,181,021	5,368,763
Operating lease liabilities, less current portion	23,459,072	24,870,979
Long-term equipment obligation, less current portion	—	56,453
Deferred income taxes	589,430	566,396
Mandatorily redeemable stock	<u>207,401</u>	<u>207,775</u>
Total liabilities	<u>29,436,924</u>	<u>31,070,366</u>
Total liabilities	34,451,194	35,921,690
Commitments and contingencies (note 10)		
Members' equity:		
Capital stock	2,847,333	2,829,153
Donated capital	552,053	526,258
Retained earnings	5,147,760	5,172,064
Accumulated other comprehensive income	<u>650,445</u>	<u>733,547</u>
Total members' equity	<u>9,197,591</u>	<u>9,261,022</u>
Total liabilities and members' equity	<u>\$ 43,648,785</u>	<u>\$ 45,182,712</u>

The accompanying notes are an integral part of these statements.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

STATEMENTS OF OPERATIONS

Years Ended December 30, 2023 and December 31, 2022

	<u>2023</u>	<u>2022</u>
Revenues (net of discounts of \$1,575,470 and \$2,308,341 during 2023 and 2022, respectively)	\$88,361,819	\$85,940,073
Cost of sales	<u>60,192,254</u>	<u>58,931,125</u>
Gross profit	28,169,565	27,008,948
Operating expenses	<u>28,423,136</u>	<u>27,115,822</u>
Loss from operations	(253,571)	(106,874)
Other (expense) income:		
Interest expense	(138,646)	(140,626)
Interest income	44,949	10,674
Other income (expense)	<u>402,861</u>	<u>(38,281)</u>
Total other income (expense)	309,164	(168,233)
Other income, not available for patronage refund	<u>—</u>	<u>1,074</u>
Total other income, not available for patronage refund	<u>—</u>	<u>1,074</u>
Income (loss) before income taxes	55,593	(274,033)
Provision for income taxes	<u>(79,897)</u>	<u>(26,429)</u>
Net loss	\$ <u>(24,304)</u>	\$ <u>(300,462)</u>

The accompanying notes are an integral part of these statements.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

Years Ended December 30, 2023 and December 31, 2022

	<u>2023</u>	<u>2022</u>
Net loss	\$ (24,304)	\$(300,462)
Other comprehensive (loss) income before tax:		
Change in fair value of swap derivative during period	(153,570)	719,603
Unrealized gains on investments	86,967	16,969
Income tax effect related to items of other comprehensive income	<u>(16,499)</u>	<u>(164,375)</u>
Other comprehensive (loss) income, net of tax	<u>(83,102)</u>	<u>572,197</u>
Total comprehensive (loss) income	<u>\$(107,406)</u>	<u>\$ 271,735</u>

The accompanying notes are an integral part of these statements.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

STATEMENTS OF MEMBERS' EQUITY

Years Ended December 30, 2023 and December 31, 2022

	Class A		Class B		Partial Share Credits	Total Capital Stock	Donated Capital	Retained Earnings	Other Accumulated Compre- hensive Income	Total
	Common Stock		Common Stock							
	Shares	Values	Shares	Value						
Balance, January 1, 2022	552,064	\$ 2,760,321	42,751	\$ 213,775	\$ 85,093	\$ 3,059,189	\$ 353,013	\$ 5,472,526	\$ 161,350	\$ 9,046,078
Net loss	—	—	—	—	—	—	—	(300,462)	—	(300,462)
Other comprehensive income	—	—	—	—	—	—	—	—	572,197	572,197
Class B shares exchanged	—	—	(13,469)	(67,365)	(17,055)	(84,420)	—	—	—	(84,420)
Shares issued, net of redemptions	5,981	29,905	(455)	(2,275)	(1)	27,629	—	—	—	27,629
Donated capital	<u>(4,092)</u>	<u>(20,460)</u>	<u>(28,827)</u>	<u>(144,135)</u>	<u>(8,650)</u>	<u>(173,245)</u>	<u>173,245</u>	<u>—</u>	<u>—</u>	<u>—</u>
Balance, December 31, 2022	553,953	2,769,766	—	—	59,387	2,829,153	526,258	5,172,064	733,547	9,261,022
Net loss	—	—	—	—	—	—	—	(24,304)	—	(24,304)
Other comprehensive loss	—	—	—	—	—	—	—	—	(83,102)	(83,102)
Shares issued, net of redemptions	8,969	44,840	—	—	(568)	44,272	—	—	—	44,272
Donated capital	<u>(5,117)</u>	<u>(25,585)</u>	<u>—</u>	<u>—</u>	<u>(507)</u>	<u>(26,092)</u>	<u>25,795</u>	<u>—</u>	<u>—</u>	<u>(297)</u>
Balance, December 30, 2023	<u>557,805</u>	<u>\$ 2,789,021</u>	<u>—</u>	<u>\$ —</u>	<u>\$ 58,312</u>	<u>\$ 2,847,333</u>	<u>\$ 552,053</u>	<u>\$ 5,147,760</u>	<u>\$ 650,445</u>	<u>\$ 9,197,591</u>

The accompanying notes are an integral part of these statements.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

STATEMENTS OF CASH FLOWS

Years Ended December 30, 2023 and December 31, 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Net loss	\$ (24,304)	\$ (300,462)
Adjustments to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	778,970	883,798
Non-cash rent expense	96,244	164,191
Gain on disposal of equipment	-	(1,074)
Patronage investments in cooperatives	(75,713)	(110,719)
Deferred income taxes	6,535	(37,228)
Changes in operating assets and liabilities:		
Accounts receivable	79,536	348,853
Inventory	(108,625)	(219,395)
Other current and long-term assets	(112,789)	(152,809)
Accounts payable	109,120	442,439
Accrued payroll and benefits	(14,387)	(21,005)
Accrued expenses	82,349	(182,199)
Other liabilities	<u>(56,453)</u>	<u>(56,400)</u>
Net cash provided by operating activities	760,483	757,990
Cash flows from investing activities:		
Acquisition of property and equipment	(815,988)	(943,563)
Proceeds from investments	293,000	-
Purchases of investments	(298,735)	(2,312,973)
Proceeds from investments in cooperatives	<u>35,344</u>	<u>45,273</u>
Net cash used by investing activities	(786,379)	(3,211,263)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	-	9,010
Principal payments on long-term debt	(187,705)	(202,830)
Debt issuance costs	(4,120)	-
Proceeds from issuance of capital stock, net	<u>43,601</u>	<u>27,629</u>
Net cash used by financing activities	<u>(148,224)</u>	<u>(166,191)</u>
Net decrease in cash and cash equivalents	(174,120)	(2,619,464)
Cash and cash equivalents, beginning of year	<u>1,814,765</u>	<u>4,434,229</u>
Cash and cash equivalents, end of year	<u>\$ 1,640,645</u>	<u>\$ 1,814,765</u>

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended December 30, 2023 and December 31, 2022

	<u>2023</u>	<u>2022</u>
Supplemental disclosures of cash flows information:		
Cash paid during the period for:		
Interest expense	\$ <u>130,469</u>	\$ <u>135,266</u>
Income taxes	\$ <u>148,726</u>	\$ <u>60,886</u>
Supplemental disclosure of noncash activities:		
Class B shares exchanged for mandatorily redeemable stock	\$ <u>—</u>	\$ <u>84,420</u>
Other comprehensive (loss) income amounts:		
Noncash activity related to interest rate swap:		
Change in fair value of interest rate swap, net of related tax effect	\$ <u>(119,096)</u>	\$ <u>559,016</u>
Noncash activity related to investments:		
Unrealized gains on investments, net of related tax effect	\$ <u>35,994</u>	\$ <u>13,181</u>
Cash flows for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases	\$ <u>1,912,474</u>	\$ <u>2,068,529</u>

As of the date of adoption of ASC 842 on January 2, 2022, right-of-use assets totaling \$26,841,503 (reduced by the liability for deferred rent and improvements paid by the lessor totaling \$1,015,697 outstanding on January 2, 2022) and operating lease liabilities for \$27,857,200, respectively, were established on the Cooperative's balance sheet.

The accompanying notes are an integral part of these statements.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

December 30, 2023 and December 31, 2022

1. Nature of 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; as well as automobile service centers in Hanover, New Hampshire and Norwich, Vermont, 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 72% of total sales for the years ended December 30, 2023 and December 31, 2022, respectively. Sales of grocery-related items were 94% of total sales in 2023 and 2022, and sales of automobile fuel and repair services were 6% of total sales in 2023 and 2022.

2. Summary of Accounting Policies

Fiscal Year End

The Cooperative's fiscal year ends on the Saturday nearest to December 31. The fiscal periods ended December 30, 2023 and December 31, 2022.

Cash and Cash Equivalents

The Cooperative considers all highly liquid instruments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Trade accounts are stated at the amount the Cooperative expects to collect from sales of products. Other receivables primarily consist of volume rebates due from various suppliers and accrued investment income. In accordance with ASC Topic 326, *Financial Instruments – Credit Losses*, the Cooperative makes ongoing estimates relating to the collectability of accounts receivable and maintains an allowance 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 were 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. Management determined that no allowance was required at December 30, 2023 and December 31, 2022.

Accounts receivable – trade and other consists of the following at December 30, 2023 and December 31, 2022:

	<u>2023</u>	<u>2022</u>
Trade and credit card receivables	\$ 43,340	\$209,293
Other receivables	<u>415,636</u>	<u>329,219</u>
	<u>\$458,976</u>	<u>\$538,512</u>

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

December 30, 2023 and December 31, 2022

2. Summary of Accounting Policies (Continued)

Inventory

Inventory consists of consumer products for resale and is stated at the lower of cost or net realizable value. Cost is determined using the first-in first-out (FIFO) method.

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. Depreciation expense was \$775,163 and \$877,552 for the years ended December 30, 2023 and December 31, 2022, respectively.

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. As of December 30, 2023 and December 31, 2022, management determined that no impairment loss was required to be recognized.

Investment in Other Cooperative Associations

Nonmarketable investments in cooperative associations are carried at cost, less any impairment, plus or minus changes from observable price changes in orderly transactions for an identical or similar investment of the same issuer.

Investment Securities and Investment Income

The Cooperative purchased investment securities in October 2022. The Cooperative classifies its investment securities as available-for-sale. Investments consist of a money market fund and debt securities and are carried at fair value in the accompanying balance sheets. See Note 15 for further discussion regarding fair value measurements. Investment income (including realized gains and losses on investments, interest and dividends) are included in interest income in the accompanying statements of operations. The change in net unrealized gains and losses on debt securities is reported within other comprehensive (loss) income, except declines that are determined by management to be other than temporary, which are reported as an impairment charge and would be included within other income (expense). No such losses were recorded in 2023 or 2022.

Mandatorily Redeemable Stock

Mandatorily redeemable stock (note 9), is recorded as a liability at its estimated fair value upon issuance and is remeasured annually to its redemption amount through charges to interest expense.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

December 30, 2023 and December 31, 2022

2. Summary of Accounting Policies (Continued)

Debt Issuance Costs

Debt issuance costs are amortized on the straight-line method, which approximates the effective interest method, over the term of the related agreements. The debt issuance costs are presented as a component of long-term debt.

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, any impairment write-down recognized for financial reporting purposes not for tax purposes, accrued compensation, patronage refunds earned on investments in other cooperative associations, 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.

The Cooperative has evaluated the positions taken on its corporate tax returns filed and the potential impact on its tax status as of December 30, 2023 and December 31, 2022. The Cooperative has concluded no uncertain income tax positions existed at December 30, 2023 and December 31, 2022.

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

Advertising Expense

Advertising costs are charged to operations when incurred. Advertising expense was approximately \$147,700 and \$147,600 for the years ended December 30, 2023 and December 31, 2022, respectively.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

December 30, 2023 and December 31, 2022

2. Summary of Accounting Policies (Continued)

Revenue Recognition

The Cooperative records revenue from the sales of merchandise upon delivery, which is when its performance obligation is satisfied. For sales at retail grocery stores, delivery occurs at the point of sale. Automotive service center revenues are recognized as the agreed-upon services are completed. Payment is generally due at the point of sale. The transaction price is the amount of consideration to which the Cooperative expects to be entitled to in exchange for transfer of goods and services to the customer, adjusted for returns and discounts. Sales discounts totaled \$1,575,470 and \$2,308,341 for the years ended December 30, 2023 and December 31, 2022, respectively. Returns are not significant.

The Cooperative collects and remits sales related taxes on transactions with customers and reports such amounts under the net method in the statement of operations. Accordingly, these taxes are not included in revenues.

The Cooperative records a liability in the period in which a gift card is sold. As gift cards are redeemed, the Cooperative recognizes revenue and reduces the related liability. Gift cards do not expire, but typically are redeemed within one year of issuance. When a gift card is not subject to escheatment and it is probable that a portion of the gift card will not be redeemed, this amount is considered to be breakage. Gift card revenues and related breakage are not significant.

The following summarizes revenues between grocery-related sales, sales of automobile fuel and repair sales for the years ended December 30, 2023 and December 31, 2022:

	<u>2023</u>	<u>2022</u>
Grocery-related	\$82,789,514	\$80,470,826
Fuel sales	3,047,716	3,672,902
Repair services	<u>2,524,589</u>	<u>1,796,345</u>
	<u>\$88,361,819</u>	<u>\$85,940,073</u>

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.

Derivative Financial Instruments

Derivatives are required to be recorded on the balance sheet at fair value. The Cooperative has two interest rate swap agreements with TD Bank, N.A., which have been designated and qualify as cash flow hedges. Accordingly, the change in fair value of the swap was credited to accumulated other comprehensive income, net of the related income tax effect, a component of members' equity, and excluded from net loss.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

December 30, 2023 and December 31, 2022

2. Summary of Accounting Policies (Continued)

Other Comprehensive (Loss) Income

The Cooperative reports and displays comprehensive (loss) income and its components in its financial statements. Comprehensive (loss) income is the total of net (loss) income and all other non-member changes in equity, including such items as unrealized holding gains/losses on investments in debt securities and cash flow hedges.

Accumulated other comprehensive income as of December 30, 2023 and December 31, 2022 consists of the following, including cumulative income tax effect adjustments of \$191,792 and \$210,754 at December 30, 2023 and December 31, 2022, respectively:

	<u>Unrealized Gains on Investments</u>	<u>Interest Rate Swap Asset</u>	<u>Accumulated Other Compre- hensive Income</u>
Balance, January 1, 2022	\$ –	\$ 161,350	\$161,350
Other comprehensive income	<u>13,181</u>	<u>559,016</u>	<u>572,197</u>
Balance, December 31, 2022	13,181	720,366	733,547
Other comprehensive loss	<u>35,994</u>	<u>(119,096)</u>	<u>(83,102)</u>
Balance, December 30, 2023	<u>\$49,175</u>	<u>\$ 601,270</u>	<u>\$650,445</u>

Leases

At inception of a contract, the Cooperative determines if a contract meets the definition of a lease. A lease is a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. The Cooperative determines if the contract conveys the right to control the use of an identified asset for a period of time. The Cooperative assesses throughout the period of use whether the Cooperative has both of the following: (1) the right to obtain substantially all of the economic benefits from use of the identified asset, and (2) the right to direct the use of the identified asset. This determination is reassessed if the terms of the contract are changed. Leases are classified as operating or finance leases based on the terms of the lease agreement and certain characteristics of the identified asset. Right-of-use assets and lease liabilities are recognized at lease commencement date based on the present value of the minimum future lease payments.

The Cooperative leases facilities for the operation of food stores (real estate), as well as land under non-cancellable operating leases. The Cooperative's policy is to not record leases with an original term of twelve months or less on the balance sheets. The Cooperative recognizes lease expense for these short-term leases on a straight-line basis over the lease term.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

December 30, 2023 and December 31, 2022

2. Summary of Accounting Policies (Continued)

Certain lease agreements include rental payments that are adjusted periodically for inflation or other variables. In addition to rent, the leases may require the Cooperative to pay additional amounts for taxes, insurance, maintenance and other expenses, which are generally referred to as non-lease components. Except for when the costs are fixed, such adjustments to rental payments and variable non-lease components are treated as variable lease payments and recognized in the period in which the obligation for these payments was incurred. Variable lease components and variable non-lease components are not measured as part of the right-of-use asset and lease liability. Only when lease components and their associated non-lease components are fixed are they accounted for as a single lease component and are recognized as part of a right-of-use asset and lease liability. Total contract consideration is allocated to the combined fixed lease and non-lease component. This policy election applies consistently to all asset classes under lease agreements.

Most leases contain clauses for renewal at the Cooperative's option with renewal terms that generally extend the lease term from 5 to 10 years. Payments to be made in option periods are recognized as part of the right-of-use lease assets and lease liabilities when it is reasonably certain that the option to extend the lease will be exercised or the option to terminate the lease will not be exercised, or is not at the Cooperative's option. The Cooperative determines whether the reasonably certain threshold is met by considering contract-, asset-, market-, and entity-based factors.

The Cooperative's lease agreements do not contain any significant residual value guarantees or material restrictive covenants imposed by the leases.

The Cooperative does not have any sublease agreements.

Subsequent Events

In preparing these financial statements, the Cooperative has evaluated events and transactions for potential recognition or disclosure through March 27, 2024, the date the financial statements were available to be issued.

3. Concentration of Credit Risk

Financial instruments which subject the Cooperative to credit risk consist primarily of cash, cash equivalents and investments in debt securities. 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 overnight repurchase agreements with its financial institutions. The repurchase agreements are secured by U.S. government-backed securities. The Cooperative has not experienced any losses with these accounts. The Cooperative's investment portfolio consists of diversified investments, which are subject to market risk. Management believes the Cooperative is not exposed to any significant credit risk on cash, cash equivalents and investments in debt securities.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

December 30, 2023 and December 31, 2022

4. 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 5). The Cooperative receives certificates of indebtedness from AGNE to satisfy patronage rebates. Interest rates range from 4.0% to 4.5%, maturing at various times through June 2025. Amounts receivable under these agreements totaled \$65,964 at December 30, 2023 and December 31, 2022. 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, 2023 and December 30, 2022, management determined that no valuation allowance was required.

At December 31, 2023, certificates of indebtedness mature as follows:

Fiscal Years Ending on
or Around December 31

2024	\$ 29,172
2025	<u>36,792</u>
	<u>\$ 65,964</u>

5. Investments in Other Cooperative Associations

The investments in cooperative associations are nonmarketable investments, which consist of the following at December 30, 2023 and December 31, 2022:

	<u>2023</u>	<u>2022</u>
National Consumer Cooperative Bank (NCCB):		
NCCB is a financial services cooperative, the parent company of its wholly owned subsidiary, National Cooperative Bank, N.A.		
At December 30, 2023 and December 31, 2022, 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. 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.		
	\$ 202,701	\$ 202,701

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

December 30, 2023 and December 31, 2022

5. Investments in Other Cooperative Associations (Continued)

	<u>2023</u>	<u>2022</u>
Associated Grocers of New England, Inc. (AGNE):		
AGNE is a consumer goods membership cooperative that provides members with annual patronage rebates in cash, certificates of indebtedness (see note 4), and patronage shares. Members initially purchase one share of Class A stock at \$5,000 and may purchase additional shares of Class B stock annually based on total merchandise purchases. Class A and B stock are eligible to receive 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, 2023 and December 31, 2022. The Cooperative owns 5,435 shares of Class B stock at December 30, 2023 and December 31, 2022.	\$ 784,522	\$ 784,522
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.	631,903	599,384
Other	<u>19,631</u>	<u>11,781</u>
	<u>\$1,638,757</u>	<u>\$1,598,388</u>

6. Line of Credit

Effective April 26, 2023, the Cooperative has a \$1,000,000 revolving line of credit with TD Bank, N.A. that can be used for working capital available through October 31, 2028. Interest is payable monthly based on the prime rate as published by the Wall Street Journal, subject to a floor of 4.0% (8.50% at December 30, 2023). The working capital line of credit is secured by a third priority mortgage and security agreement on certain property and substantially all business assets. The Cooperative is also required to meet a certain debt service coverage ratio, among other requirements. In addition, the working capital line of credit must be paid off for 30 consecutive days within a 12-month period. The Cooperative was in compliance with these covenants as of December 30, 2023. There were no borrowings related to this agreement outstanding at December 30, 2023.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

December 30, 2023 and December 31, 2022

7. Long-Term Debt

Long-term debt consisted of the following at December 30, 2023 and December 31, 2022:

	<u>2023</u>	<u>2022</u>
TD Bank, N.A.:		
Note payable with variable interest equal to Secured Overnight Financing Rate (SOFR) (changed from LIBOR on April 26, 2023), plus 1.67% subject to interest rate swap described below, which fixes the rate at 2.503%, and principal payable in monthly installments ranging from \$6,763 to \$8,544 through June 2030 at which time all unpaid interest and principal, including a final balloon payment of \$1,827,844, become due. The note is secured by a first mortgage on certain property and personal property, and a security interest in substantially all other assets. The Cooperative is required to meet certain minimum debt service coverage ratio, among other requirements.	\$2,426,118	\$2,507,282
TD Bank, N.A.:		
Note payable with variable interest equal to SOFR (changed from LIBOR on April 26, 2023), plus 2.00% subject to interest rate swap described below, which fixes the rate at 2.834%, and principal payable in monthly installments ranging from \$7,933 to \$10,356 through June 2030, at which time all unpaid interest and principal, including a final balloon payment of \$2,264,719, become due. The note is secured by a second mortgage on certain property and personal property, and a security interest in substantially all other assets. The Cooperative is required to meet certain minimum debt service coverage ratio, among other requirements.	2,978,696	3,074,264
Great America Financial Services:		
Payable in monthly installments of \$1,251, including interest at a 10.99% interest rate through February 7, 2023. Secured by certain equipment.	–	2,469
Great America Financial Services:		
Payable in monthly installments of \$496, including interest at a 14.80% interest rate through September 24, 2023. Secured by certain equipment.	–	4,201
Great America Financial Services:		
Payable in monthly installments of \$275, including interest at a 11.82% interest rate through October 25, 2025. Secured by certain equipment	3,200	3,892
Great America Financial Services:		
Payable in monthly installments of \$248, including interest at a 15.07% interest rate through May 2026. Secured by certain equipment.	<u>4,297</u>	<u>7,908</u>
	5,412,311	5,600,016
Less current maturities of long-term debt	(191,146)	(192,499)
Less unamortized deferred financing fees	<u>(40,144)</u>	<u>(38,754)</u>
	<u>\$5,181,021</u>	<u>\$5,368,763</u>

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

December 30, 2023 and December 31, 2022

7. Long-Term Debt (Continued)

Interest Rate Swap Agreements

The Cooperative entered into two interest rate swap agreements to hedge the cash flow impact and risk of changes in interest rates on certain variable rate notes related to TD Bank, N.A. described above, which each fluctuate with SOFR rates (all reference rates historically based on LIBOR rate were changed to SOFR on April 26, 2023). The agreements effectively changed the Cooperative's interest rate exposure from a floating rate to a fixed rate. The interest rate swap agreements mature at the time the related notes mature (June 2030) and the variable rate component of the swaps correspond to the index used to set the interest rate on the Cooperative's debt. The interest rate swap agreements outstanding at December 30, 2023 and December 31, 2022 are summarized below:

Outstanding Debt Balance and Notional Amount of Swap		Swap Maturity Date	Variable Rate paid by Counterparty		Fixed Rate Paid by the Cooperative	Fair Value	
<u>2023</u>	<u>2022</u>		<u>2023</u>	<u>2022</u>		<u>2023</u>	<u>2022</u>
\$2,426,118	\$2,507,282	June 25, 2030	7.120%	5.790%	2.503%	\$345,187	\$413,798
2,978,696	3,074,264	June 25, 2030	7.450	6.120	2.834	428,575	513,534

Since the above agreements meet the criteria for designation as a cash flow hedge under applicable accounting standards, changes in fair value of the interest rate swaps (net of related deferred income taxes, if appropriate) are recorded as a separate component of members' equity referred to as accumulated other comprehensive income or loss. Since the terms of the derivative agreement match the terms of the related debt, there is no hedge ineffectiveness. On a monthly basis, the Cooperative pays or receives the difference between the fixed and variable rates as applied to the notional amount. The resulting difference is charged or credited to interest expense. Such charges for the years ended December 30, 2023 and December 31, 2022 are not material.

The Cooperative is exposed to credit risk in the event of nonperformance by the counterparty to the interest rate swaps as the agreements are in an asset position at December 30, 2023. The Cooperative does not currently anticipate nonperformance by the counterparty, TD Bank, N.A.

As of December 30, 2023, long-term debt matures as follows:

<u>Fiscal Years Ending on or Around December 31</u>	<u>Amount</u>
2024	\$ 191,146
2025	192,984
2026	196,930
2027	202,354
2028	207,579
Thereafter	<u>4,421,318</u>
	<u>\$5,412,311</u>

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

December 30, 2023 and December 31, 2022

8. Income Taxes

The provision (benefit) for federal and state income taxes consists of the following at December 30, 2023 and December 31, 2022:

	<u>2023</u>	<u>2022</u>
Currently payable:		
Federal	\$ (4,878)	\$ –
State	<u>78,240</u>	<u>63,657</u>
	73,362	63,657
Deferred:		
Federal	4,598	(34,448)
State	<u>1,937</u>	<u>(2,780)</u>
	<u>6,535</u>	<u>(37,228)</u>
	<u>\$79,897</u>	<u>\$ 26,429</u>

Deferred tax assets and liabilities consist of the following at December 30, 2023 and December 31, 2022:

	<u>2023</u>	<u>2022</u>
Deferred tax assets:		
Inventory valuation	\$ 6,451	\$ 5,819
Unclaimed patronage refund	3	26,831
Federal net operating loss carryforward	142,808	167,802
Interest	43,896	–
Other	<u>36,454</u>	<u>59,272</u>
	229,612	259,724
Deferred tax liabilities:		
Depreciation and amortization	510,194	455,640
Patronage refunds on investments in other cooperative	43,775	45,717
Prepaid expenses	73,281	91,164
Accrued compensation	–	22,846
Interest rate swap agreements	171,795	206,966
Unrealized gains on investments	<u>19,997</u>	<u>3,787</u>
	<u>819,042</u>	<u>826,120</u>
Net deferred tax liability	<u>\$589,430</u>	<u>\$566,396</u>

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

December 30, 2023 and December 31, 2022

8. **Income Taxes (Continued)**

The Cooperative has federal tax net operating loss carryforwards of \$597,999 at December 30, 2023, of which \$18,804 of net operating loss carryforwards will begin to expire in 2037. The remaining \$579,195 of net operating loss carryforwards are not subject to expiration. These net operating loss carryforwards are subject to review and possible adjustment by the Internal Revenue Service. Section 382 of the Internal Revenue Code also contains provisions that could place annual limitations on the utilization of these net operating loss carryforwards in the event of a change in ownership, as defined.

The State of New Hampshire Business Enterprise tax is accounted for as an income tax, which increases the effective income tax rate for the years ended December 30, 2023 and December 31, 2022.

The Cooperative files income tax returns in the U.S. federal jurisdiction and two state jurisdictions.

During the years ended December 30, 2023 and December 31, 2022, the Cooperative recognized no interest or penalties related to unrecognized tax benefits.

9. **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 or as patronage refunds in lieu of cash payments, 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 patrons' 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."

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

December 30, 2023 and December 31, 2022

9. Members' Equity (Continued)

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 exchange date 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 had until May 1, 2022 to exchange current Class B shares for new Class B shares. After this date, all remaining current Class B shares were canceled and the associated capital was reverted to the Cooperative to donated capital. On May 1, 2022, as a result of the Class B share exchange date expiring, the Cooperative canceled the remaining 28,827 Class B shares, representing \$144,135 of members' equity, as well as \$8,650 in partial Class B shares.

During 2022, members exchanged 13,469 of current Class B shares for new Class B shares, which resulted in the reclassification of \$84,420 from capital stock to mandatorily redeemable stock, which was reported as a non-current liability. As of December 31, 2022, there were no Class B shares outstanding, as all remaining Class B shares were canceled and the associated capital was reverted to the Cooperative.

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. The Cooperative canceled 5,117 shares, representing \$25,585 of members' equity during the year ended December 30, 2023. The Cooperative canceled 4,092 shares, representing \$20,460 of members' equity during the year ended December 31, 2022.

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 years ended December 30, 2023 and December 31, 2022. No amounts were available for patronage during the years ended December 30, 2023 and December 31, 2022.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

December 30, 2023 and December 31, 2022

10. Commitments and Contingencies

Operating Leases

The Cooperative leases a facility in Lebanon, New Hampshire, for the operation of a food store through June 2032 with two additional ten-year renewal options. The Cooperative has determined it is reasonably certain to extend this lease for one renewal option through June 2042, resulting in the expected payments being included in the Cooperative's right-of-use asset and operating lease liability. The Cooperative is required to pay base rent, as defined, plus 2% of annual gross sales from the Lebanon store in excess of approximately \$37,908,000 (adjusted annually) and fixed allocation of common area maintenance costs. The base rent is adjusted annually based on the Consumer Price Index (CPI), with minimum annual base rent escalations, as defined. CPI adjustments and payments due for gross sales exceeding \$37,908,000 are considered variable costs and are not part of the Cooperative's right-of-use asset and operating lease liability, and are expensed as incurred.

The Cooperative leases facilities in White River Junction, Vermont, for the operation of a food store through May 2025.

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. The Cooperative has determined it is not reasonably certain to extend this lease under the renewal option. The base rent is adjusted annually based on the CPI, as defined. CPI adjustments are considered variable costs and are not part of the Cooperative's right-of-use asset and operating lease liability, and are expensed as incurred. At the end of the lease term, the lessor shall acquire all rights, title and interest in the building.

The Cooperative leased facilities in Wilder, Vermont for the operation of a commissary kitchen through November 2023. The lease is now running on a month to month basis and is expensed as incurred as no extension has been entered into.

The Cooperative leases office space in White River Junction, Vermont, through May 2024, with two additional five-year renewal options. The Cooperative has determined it is reasonably certain to extend this lease for one renewal option through May 2029, resulting in the expected payments being included in the Cooperative's right-of-use asset and operating lease liability.

The Cooperative leases a service center in Norwich, Vermont with an original term through December 2022, with an option to renew the lease for an additional ten-year term. The Cooperative has not renegotiated the terms of the lease and is currently operating on a month-to-month lease. Therefore, the lease became a short-term lease effective January 1, 2023.

Right-of-use lease assets and lease liabilities are reported in the Cooperative's balance sheet as follows at December 30, 2023 and December 31, 2022:

	<u>2023</u>	<u>2022</u>
Operating leases:		
Operating lease right-of-use assets	\$23,594,115	\$25,115,049
Current portion of operating lease liabilities	\$ 1,411,175	\$ 1,423,958
Operating lease liability, less current portion	<u>23,459,072</u>	<u>24,870,979</u>
Total operating lease liabilities	<u>\$24,870,247</u>	<u>\$26,294,937</u>

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

December 30, 2023 and December 31, 2022

10. Commitments and Contingencies (Continued)

During the year ended December 30, 2023 and December 31, 2022, the total lease cost associated with the Cooperative's operating leases were as follows:

	<u>2023</u>	<u>2022</u>
Operating lease costs	\$2,008,718	\$2,232,720
Variable lease costs	<u>422,457</u>	<u>37,885</u>
Total lease costs	<u>\$2,431,175</u>	<u>\$2,270,605</u>

Lease Terms and Discount Rates

	<u>As of December 30, 2023</u>	<u>As of December 31, 2022</u>
Weighted-average remaining lease term (in years):		
Operating lease	17.59	18.31
Weighted-average discount rate:		
Operating lease	1.89%	1.88%

At the lease commencement date, the discount rate implicit in the lease is used to discount the lease liability if readily determinable. If not readily determinable or leases do not contain an implicit rate, the Cooperative has made a policy election to use a risk-free rate as the discount rate for all classes of underlying assets.

As of December 30, 2023, maturities of operating lease liabilities for each of the following five years and thereafter were as follows:

Fiscal Years Ending on
or Around December 31

2024	\$ 1,834,013
2025	1,694,396
2026	1,594,473
2027	1,600,053
2028	1,700,155
Thereafter	<u>21,262,560</u>
Total minimum future lease payments	29,685,650
Less imputed interest	<u>(4,815,403)</u>
Total lease liabilities	<u>\$24,870,247</u>

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

December 30, 2023 and December 31, 2022

10. Commitments and Contingencies (Continued)

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. The obligation is secured by a security interest in the related equipment. In the event that the Cooperative terminated the supplier agreement prior to May 8, 2020, the Cooperative would have been required to 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 recorded \$56,426 and \$112,879 related to this agreement in equipment obligation on the accompanying balance sheets at December 30, 2023 and December 31, 2022, respectively. The obligation decreased by \$56,453 and \$56,400 in May 2023 and 2022, respectively, based on the agreement and the amount is recorded within other income on the accompanying statement of operations. The agreement also requires the Cooperative to pay certain liquidation damages, as defined, if the Cooperative terminates the agreement without cause prior to the termination date.

Contingencies

Various legal claims arise from time to time in the normal course of business. There are no such claims which, in the opinion of management, will have a material effect on the Cooperative's financial position or results of operations.

11. 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 contribution expense with respect to the Plan of approximately \$342,000 in the years ended December 30, 2023 and December 31, 2022. There were no discretionary contributions made in the years ended December 30, 2023 and December 31, 2022.

12. 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 \$2,993,000 and \$2,680,000 in 2023 and 2022, respectively, in connection with this plan. The financial statements include a liability for claims incurred but not yet reported in the amount of approximately \$190,000 and \$186,000 as of December 30, 2023 and December 31, 2022, respectively.

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

December 30, 2023 and December 31, 2022

13. Major Suppliers

During the year ended December 30, 2023, the Cooperative purchased approximately \$27,448,000 (41% of total purchases) of its goods from an unrelated party and AGNE, a related party (see note 5 and 14). At December 30, 2023, amounts due to these suppliers, included in accounts payable, totaled approximately \$812,000.

During the year ended December 31, 2022, the Cooperative purchased approximately \$26,817,000 (41% of total purchases) of its goods from an unrelated party and AGNE, a related party (see note 5 and 14). At December 31, 2022, amounts due to these suppliers, included in accounts payable, totaled approximately \$808,000.

14. Related Party Transactions

The Cooperative is a member of AGNE (see note 5). The Cooperative purchased goods and groceries from AGNE of approximately \$16,724,000 and \$16,572,000 during the years ended December 30, 2023 and December 31, 2022, respectively. Amounts due to AGNE, included in accounts payable, were approximately \$311,000 and \$269,000 at December 30, 2023 and December 31, 2022, respectively. Patronage refunds due from AGNE, included in accounts receivable, were approximately \$177,000 and \$150,000 at December 30, 2023 and December 31, 2022, 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 years ended December 30, 2023 and December 31, 2022, were approximately \$2,549,000 and \$1,786,000, respectively. The discounts on these sales were netted against the gross sales in the statement of operations and approximated \$386,000 and \$330,000, for the years ended December 30, 2023 and December 31, 2022, respectively.

Amounts due from members of approximately \$99,000 and \$152,000 are included in accounts receivable at December 30, 2023 and December 31, 2022, respectively.

See also note 5 for additional disclosure related to investments in cooperatives and note 4 regarding certificates of indebtedness.

15. Investments and Fair Value Measurements

Short-term investments and investments are comprised of the following at December 30, 2023 and December 31, 2022:

	<u>Fair Value</u>	<u>Cost</u>
<u>2023</u>		
Cash and cash equivalents	\$ 34,172	\$ 34,172
United States federal treasury obligations	<u>2,388,472</u>	<u>2,305,734</u>
	<u>\$2,422,644</u>	<u>\$2,339,906</u>

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

December 30, 2023 and December 31, 2022

15. Investments and Fair Value Measurements (Continued)

	<u>Fair Value</u>	<u>Cost</u>
<u>2022</u>		
Cash and cash equivalents	\$ 34,504	\$ 34,504
United States federal treasury obligations	<u>2,295,438</u>	<u>2,278,469</u>
	<u>\$2,329,942</u>	<u>\$2,312,973</u>

Interest income and net unrealized gains and losses on investments are comprised of the following at December 30, 2023 and December 31, 2022:

	<u>2023</u>	<u>2022</u>
Interest income	\$ 44,949	\$ 10,674
Net unrealized gains	<u>86,967</u>	<u>16,969</u>
	<u>\$131,916</u>	<u>\$27,643</u>

The fair value of securities classified as available-for-sale, by contractual maturity, as of December 30, 2023, are as follows:

Amounts maturing in:	
Less than one year	\$1,257,556
After one year through five years	<u>1,165,088</u>
	<u>\$2,422,644</u>

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In determining fair value, the use of various valuation approaches, including market, income and cost approaches, is permitted.

A fair value hierarchy has been established based on whether the inputs to valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from sources independent of the reporting entity and unobservable inputs reflect the entity's own assumptions about how market participants would value an asset or liability based on the best information available. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value.

The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Cooperative for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

Level 1 – Observable inputs such as quoted prices in active markets;

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

December 30, 2023 and December 31, 2022

15. Investments and Fair Value Measurements (Continued)

Level 2 – Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and

Level 3 – Unobservable inputs in which there is little or no market data.

In determining the appropriate levels, the Cooperative performs a detailed analysis of the assets and liabilities.

The following is a description of the valuation methodologies used:

Cash and Cash Equivalents

Cash and cash equivalents totaling \$34,172 and \$34,504 at December 30, 2023 and December 31, 2022, respectively, consists of a money market sweep account, valued at the quoted net asset value of shares held, which are traded in an active market. Classified as level 1 within the fair value hierarchy.

United States Federal Treasury Obligations

United States Federal Treasury Obligations totaled \$2,388,472 and \$2,295,438 at December 30, 2023 and December 31, 2022, respectively, and are valued using observable inputs, including quoted prices for similar assets or quoted prices in less active markets. Classified as level 2 within the fair value hierarchy.

Investments in Other Cooperative Associations

Investments in other cooperative associations totaling \$1,638,757 and \$1,598,388 at December 30, 2023 and December 31, 2022, respectively, are not readily marketable and are recorded at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. These investments may be redeemed at face value only at the discretion of the other cooperatives' boards of directors and have been classified as level 2 within the fair value hierarchy.

Interest Rate Swap Agreements

The fair value (settlement value) of the interest rate swap assets totaling \$773,762 and \$927,332 at December 30, 2023 and December 31, 2022, respectively, have been classified as level 2 within the fair value hierarchy, as the amounts are estimated using industry standard valuation models. These models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rates.

The methodology described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while management of the Cooperative believes its valuation methodology is appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

SUPPLEMENTAL INFORMATION

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

SCHEDULE OF OPERATING EXPENSES

Years Ended December 30, 2023 and December 31, 2022

	<u>2023</u>	<u>2022</u>
Store operations expenses:		
Store wages and benefits	\$13,269,902	\$12,423,297
Facilities cost	4,550,975	4,422,963
Credit card expenses	1,523,345	1,408,374
Selling and other costs	1,134,731	1,217,600
Equipment costs	<u>466,842</u>	<u>470,006</u>
	20,945,795	19,942,240
General and administrative expenses:		
Information technology department expenses	1,227,111	1,285,541
Administrative expenses	1,902,596	1,727,063
Merchandising expenses	1,093,309	1,169,487
Education expenses	923,744	1,023,564
Finance department expenses	784,701	683,057
Facilities maintenance department expenses	387,328	550,771
Human resources department expenses	748,215	578,486
Board of directors expenses	162,921	120,101
Public relations expenses	<u>247,416</u>	<u>35,512</u>
	<u>7,477,341</u>	<u>7,173,582</u>
	<u>\$28,423,136</u>	<u>\$27,115,822</u>

HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES

Years Ended December 30, 2023 and December 31, 2022

	<u>2023</u>	<u>2022</u>
Salaries and benefits	\$5,156,114	\$4,838,596
Equipment expenses	85,511	95,888
Equipment depreciation	190,077	210,450
Building leases	271,046	290,152
Professional fees	505,622	430,288
Telephone	149,023	133,747
Advertising	99,433	82,341
Consulting fees	61,917	140,247
Dues and subscriptions	110,412	135,153
Meals, entertainment and vehicle reimbursement	64,645	36,706
Education and training	54,602	37,338
Technical maintenance contracts	378,017	422,204
Supplies	48,102	50,890
Occupancy costs	34,332	37,498
Insurance	44,339	33,490
Postage	21,640	10,533
Printing	10,928	33,100
Graphics and promotional expenses	48,222	65,233
Employee relations and programs	25,761	23,976
Bank charges	41,406	44,717
Demo expenses	8,263	256
Contributions	19,467	13,922
Membership meeting	4,677	2,714
Other	<u>43,785</u>	<u>4,143</u>
	<u>\$7,477,341</u>	<u>\$7,173,582</u>