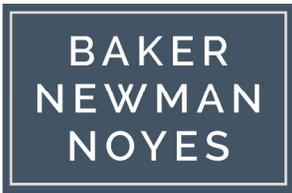


# **Hanover Consumer Cooperative Society, Inc.**

Financial Statements and Supplemental Information

*Years Ended January 2, 2021 and December 28, 2019  
With Independent Auditors' Report*



**INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of Hanover Consumer Cooperative Society, Inc., (the Cooperative) which comprise the balance sheets as of January 2, 2021 and December 28, 2019, the related statements of operations, comprehensive income (loss), members' equity and cash flows for the years 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.

***Auditors' 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 auditors' 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.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cooperative as of January 2, 2021 and December 28, 2019, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

***Emphasis of Matter***

As discussed in Note 7, the Cooperative recognized grant income of \$2,317,550 resulting from its Payroll Protection Program (PPP) loan. The U.S. Small Business Administration has not yet approved forgiveness of the loan. Our opinion is not modified with respect to this matter.

***Other Matter – Supplemental Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as of and for the years ended January 2, 2021 and December 28, 2019, as a whole. The accompanying supplementary 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.

*Beck Newton & Noyes LLC*  
Manchester, New Hampshire  
April 28, 2021



LIABILITIES AND MEMBERS' EQUITY

	<u>2020</u>	<u>2019</u>
Current liabilities:		
Current maturities of long-term debt	\$ 563,675	\$ 457,853
Accounts payable	2,070,217	2,194,103
Accrued payroll and benefits	507,332	671,037
Accrued expenses	642,097	616,376
Current portion of equipment obligation	<u>56,426</u>	<u>56,426</u>
Total current liabilities	3,839,747	3,995,795
Long-term liabilities:		
Long-term debt, less current maturities	6,039,846	2,285,803
Long-term equipment obligation	169,279	225,705
Interest rate swap liability	62,059	—
Deferred rent	365,045	287,821
Deferred income taxes	230,705	252,140
Mandatorily redeemable stock	<u>97,029</u>	<u>84,290</u>
	<u>6,963,963</u>	<u>3,135,759</u>
Total liabilities	10,803,710	7,131,554
Commitments (note 10)		
Members' equity:		
Capital stock	3,079,208	3,059,674
Donated capital	315,500	315,500
Retained earnings	5,435,569	3,581,081
Accumulated other comprehensive loss	<u>(48,198)</u>	<u>—</u>
Total members' equity	<u>8,782,079</u>	<u>6,956,255</u>
Total liabilities and members' equity	<u>\$19,585,789</u>	<u>\$14,087,809</u>

The accompanying notes are an integral part of these statements.

# HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

## STATEMENTS OF OPERATIONS

Years Ended January 2, 2021 and December 28, 2019

	<u>2020</u>	<u>2019</u>
Revenues	\$85,416,539	\$76,977,353
Cost of sales	<u>57,044,218</u>	<u>51,718,546</u>
Gross profit	28,372,321	25,258,807
Operating expenses	<u>28,557,508</u>	<u>25,073,206</u>
(Loss) income from operations	(185,187)	185,601
Other income (expense):		
Interest expense	(149,215)	(145,579)
Interest income	14,456	9,043
Other income (expense)	<u>18,624</u>	<u>(19,650)</u>
Total other expense	(116,135)	(156,186)
Other income, not available for patronage refund:		
Government grant income (note 7)	2,317,550	—
Gain (loss) on disposal of equipment	4,400	(66,668)
Loss on prepayment of long-term debt	<u>(101,579)</u>	<u>—</u>
Total other income (expense), not available for patronage refund	<u>2,220,371</u>	<u>(66,668)</u>
Income (loss) before income taxes	1,919,049	(37,253)
Provision from income taxes	<u>64,561</u>	<u>36,369</u>
Net income (loss)	<u>\$ 1,854,488</u>	<u>\$ (73,622)</u>

The accompanying notes are an integral part of these statements.

**HANOVER CONSUMER COOPERATIVE SOCIETY, INC.**

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Years Ended January 2, 2021 and December 28, 2019

	<u>2020</u>	<u>2019</u>
Net income (loss)	\$1,854,488	\$ (73,622)
Other comprehensive loss before tax:		
Change in fair value of swap derivative during period	(62,059)	—
Income tax benefit related to items of other comprehensive loss	<u>13,861</u>	<u>—</u>
Other comprehensive loss, net of tax	<u>(48,198)</u>	<u>—</u>
Total comprehensive income (loss)	<u>\$1,806,290</u>	<u>\$ (73,622)</u>

The accompanying notes are an integral part of these statements.

**HANOVER CONSUMER COOPERATIVE SOCIETY, INC.**

STATEMENTS OF MEMBERS' EQUITY

Years Ended January 2, 2021 and December 28, 2019

	Class A Common Stock		Class B Common Stock		Partial Share Credits	Total Capital Stock	Donated Capital	Retained Earnings	Other Accumulated Compre- hensive Loss	Total
	Shares	Values	Shares	Value						
Balance, December 29, 2018	542,417	\$ 2,712,086	57,618	\$ 288,100	\$ 92,816	\$ 3,093,002	\$ 315,500	\$ 3,654,703	\$ —	\$ 7,063,205
Net loss	—	—	—	—	—	—	—	(73,622)	—	(73,622)
Class B shares exchanged (note 9)	—	—	(6,567)	(32,834)	(3,485)	(36,319)	—	—	—	(36,319)
Shares issued, net of redemptions	<u>1,048</u>	<u>5,240</u>	<u>(341)</u>	<u>(1,696)</u>	<u>(553)</u>	<u>2,991</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,991</u>
Balance, December 28, 2019	543,465	2,717,326	50,710	253,570	88,778	3,059,674	315,500	3,581,081	—	6,956,255
Net income	—	—	—	—	—	—	—	1,854,488	—	1,854,488
Other comprehensive loss	—	—	—	—	—	—	—	—	(48,198)	(48,198)
Class B shares exchanged (note 9)	—	—	(2,390)	(11,950)	(789)	(12,739)	—	—	—	(12,739)
Shares issued, net of redemptions	<u>6,869</u>	<u>34,345</u>	<u>(285)</u>	<u>(1,425)</u>	<u>(647)</u>	<u>32,273</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>32,273</u>
Balance, January 2, 2021	<u>550,334</u>	<u>\$ 2,751,671</u>	<u>48,035</u>	<u>\$ 240,195</u>	<u>\$ 87,342</u>	<u>\$ 3,079,208</u>	<u>\$ 315,500</u>	<u>\$ 5,435,569</u>	<u>\$ (48,198)</u>	<u>\$ 8,782,079</u>

The accompanying notes are an integral part of these statements.

**HANOVER CONSUMER COOPERATIVE SOCIETY, INC.**

STATEMENTS OF CASH FLOWS

Years Ended January 2, 2021 and December 28, 2019

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Net income (loss)	\$ 1,854,488	\$ (73,622)
Adjustments to reconcile net income (loss) to cash provided by operating activities:		
Depreciation and amortization	1,124,934	1,138,109
Deferred rent	77,224	94,181
(Gain ) loss on disposal of equipment	(4,400)	66,668
Loss on prepayment of long-term debt	101,579	-
Patronage certificates of indebtedness received	-	(36,792)
Patronage investments in cooperatives	(56,882)	(19,586)
Deferred income taxes	(7,574)	(33,394)
Changes in operating assets and liabilities:		
Accounts receivable	(88,152)	(141,378)
Inventory	250,443	(36,520)
Refundable income taxes	-	30,038
Other current and long-term assets	(261,133)	(21,298)
Accounts payable	(123,886)	(619,472)
Accrued payroll and benefits	(163,705)	(115,414)
Accrued expenses	25,721	107,721
Patronage refunds payable	-	(108,222)
Other liabilities	<u>(56,426)</u>	<u>-</u>
Net cash provided by operating activities	2,672,231	231,019
Cash flows from investing activities:		
Acquisition of property and equipment	(1,041,781)	(731,976)
Proceeds from disposal of equipment	4,400	2,700
Proceeds from repayments of certificates of indebtedness	82,689	74,523
Proceeds from investments in cooperatives	<u>70,996</u>	<u>43,579</u>
Net cash used in investing activities	(883,696)	(611,174)
Cash flows from financing activities:		
Proceeds from long-term debt	6,682,450	21,062
Principal payments on long-term debt	(2,803,556)	(429,520)
Prepayment penalty on long-term debt	(71,445)	-
Debt issuance costs	(54,440)	-
Proceeds from issuance (payments for repurchase) of capital stock, net	<u>32,273</u>	<u>2,991</u>
Net cash provided (used) in financing activities	<u>3,785,282</u>	<u>(405,467)</u>
Net increase (decrease) in cash and cash equivalents	5,573,817	(785,622)
Cash and cash equivalents, beginning of year	<u>1,356,049</u>	<u>2,141,671</u>
Cash and cash equivalents, end of year	<u>\$ 6,929,866</u>	<u>\$ 1,356,049</u>

Continued on next page.

**HANOVER CONSUMER COOPERATIVE SOCIETY, INC.**

STATEMENTS OF CASH FLOWS (CONTINUED)

Years Ended January 2, 2021 and December 28, 2019

	<u>2020</u>	<u>2019</u>
Supplemental disclosures of cash flows information:		
Cash paid during the period for:		
Interest expense	\$ <u>143,938</u>	\$ <u>140,355</u>
Income taxes	\$ <u>51,645</u>	\$ <u>66,407</u>
Supplemental disclosure of noncash activities:		
Other comprehensive loss amounts:		
Noncash activity related to interest rate swap:		
Change in fair value of interest rate swap, net of related tax effect	\$ <u>(48,198)</u>	\$ <u>—</u>

The accompanying notes are an integral part of these statements.

# HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS

January 2, 2021 and December 28, 2019

### 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 75% and 74% of total sales for the years ending January 2, 2021 and December 28, 2019, respectively. Sales of grocery-related items were 96% and 94% of total sales in 2020 and 2019, respectively, and sales of automobile fuel and repair services were 4% and 6% of total sales in 2020 and 2019, respectively.

### 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 January 2, 2021 and December 28, 2019.

#### 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. 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. Management determined that no allowance was required at January 2, 2021 and December 28, 2019.

Accounts receivable – trade and other consists of the following at January 2, 2021 and December 28, 2019:

	<u>2020</u>	<u>2019</u>
Trade and credit card receivables	\$558,708	\$222,236
Other receivables	<u>189,193</u>	<u>437,513</u>
	<u>\$747,901</u>	<u>\$659,749</u>

# HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS

January 2, 2021 and December 28, 2019

### 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 \$1,118,582 and \$1,131,810 for the years ended January 2, 2021 and December 28, 2019, 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 January 2, 2021 and December 28, 2019, 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.

#### 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.

#### 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.

# HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS

January 2, 2021 and December 28, 2019

### 2. Summary of Accounting Policies (Continued)

#### 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 January 2, 2021 and December 28, 2019. The Cooperative has concluded no uncertain income tax positions existed at January 2, 2021 and December 28, 2019.

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 \$116,300 and \$111,100 for the periods ended January 2, 2021 and December 28, 2019, respectively.

#### 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. Returns are not significant.

The Cooperative collects and remits sales, food, beverage and alcoholic beverage 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.

# HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS

January 2, 2021 and December 28, 2019

### 2. Summary of Accounting Policies (Continued)

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 January 2, 2021 and December 28, 2019:

	<u>2020</u>	<u>2019</u>
Grocery-related	\$81,960,177	\$72,666,962
Fuel sales	1,851,940	2,940,382
Repair services	<u>1,604,422</u>	<u>1,370,009</u>
	<u>\$85,416,539</u>	<u>\$76,977,353</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. In 2020, the Cooperative entered into 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 loss, net of the related income tax effect, a component of members' equity, and excluded from net income.

#### Risks and Uncertainties

On March 11, 2020, the World Health Organization classified the coronavirus (COVID-19) outbreak as a pandemic. The coronavirus pandemic resulted in national, state and local authorities mandating or recommending isolation measures for large portions of the population, including mandatory business restrictions and closures. These measures, which were necessary to slow the spread of the virus and protect lives, resulted in significant job losses and are expected to have serious adverse impacts on domestic and foreign economies for an unknown length of time. The effect of economic stabilization efforts, including government payments to affected citizens and industries, is uncertain.

# HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS

January 2, 2021 and December 28, 2019

### 2. Summary of Accounting Policies (Continued)

The Cooperative has been classified as an essential business in all locations in which it operates and has remained open to serve the needs of its customers. It is a priority of the Cooperative to continue to serve its customers in a way that protects the health and safety of its employees and customers. The Cooperative experienced significant increases in sales during the year ended January 2, 2021 due to the impact of the coronavirus pandemic. The Cooperative incurred additional payroll and other related costs to meet the significant sales demand and protect the health and safety of its employees and customers. The additional costs incurred exceeded the profit on incremental sales resulting from increased customer purchases of food and cleaning supplies.

In response to COVID-19, the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) was signed into law on March 27, 2020. The CARES Act provides tax provisions and other stimulus measures to affected companies. The global pandemic of COVID-19 continues to evolve and, while some effects of COVID-19 are reflected in these financial statements, the ultimate impact over time is highly uncertain and subject to change. The extent to which COVID-19 impacts the Cooperative going forward will depend on numerous evolving factors which cannot be reliably predicted, including the duration and scope of the pandemic; governmental, business, and individuals' actions in response to the pandemic; and the impact on the global economic activity including the possibility of recession or financial market instability.

#### New Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. Under ASU 2016-02, at the commencement of a long-term lease, lessees will recognize a liability equivalent to the discounted payments due under the lease agreement, as well as an offsetting right-of-use asset. ASU 2016-02 is effective for the Cooperative on January 2, 2022, with early adoption permitted. Lessees (for capital and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach includes a number of optional practical expedients that entities may elect to apply. An entity that elects to apply the practical expedients will, in effect, continue to account for leases that start before the effective date in accordance with previous methodology unless the lease is modified, except that lessees are required to recognize a right-of-use asset and a lease liability for all operating leases at each reporting date based on the present value of the remaining minimum rental payments that were tracked and disclosed under previous lease accounting rules. The Cooperative is currently evaluating the impact of this pending adoption of ASU 2016-02 on the Cooperative's financial statements.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which simplifies the designation and measurement requirements of hedge accounting in certain situations and allows companies to better align their hedge accounting with their risk management activities. The guidance also eases certain hedge effectiveness assessment requirements, expands the eligibility of hedging strategies that may qualify for hedge accounting and modifies certain presentation and disclosure requirements. The Cooperative early adopted the guidance on December 29, 2019 and the adoption did not have a material impact on its financial statements.

# HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS

January 2, 2021 and December 28, 2019

### 2. Summary of Accounting Policies (Continued)

#### Reclassifications

Certain 2019 amounts have been reclassified to permit comparison with the 2020 financial statements presentation format.

#### Subsequent Events

In preparing these financial statements, the Cooperative has evaluated events and transactions for potential recognition or disclosure through April 28, 2021, the date the financial statements were available to be issued.

### 3. 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 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. Management believes the Cooperative is not exposed to any significant credit risk on cash.

### 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 and \$148,653 at January 2, 2021 and December 28, 2019, 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 January 2, 2021 and December 28, 2019, management determined that no valuation allowance was required.

At January 2, 2021 certificates of indebtedness mature as follows:

Fiscal Periods Ending on  
or Around December 31

2021	\$	–
2022		–
2023		–
2024		29,172
2025		<u>36,792</u>
		<u>\$65,964</u>

# HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS

January 2, 2021 and December 28, 2019

### 5. Investments in Other Cooperative Associations

The investments in cooperative associations are nonmarketable investments, which consist of the following at January 2, 2021 and December 28, 2019:

	<u>2020</u>	<u>2019</u>
National Consumer Cooperative Bank (NCCB):		
<p>NCCB is a financial services cooperative, the parent company of its wholly-owned subsidiary, National Cooperative Bank, N.A. (note 7). At January 2, 2021 and December 28, 2019, 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 7). 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.</p>		
	\$ 202,701	\$ 202,701
Associated Grocers of New England, Inc. (AGNE):		
<p>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 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 January 2, 2021 and December 28, 2019. The Cooperative owns 5,435 shares of Class B stock at January 2, 2021 and December 28, 2019.</p>		
	784,059	784,059
National Coop Grocers (NCG):		
<p>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.</p>		
	476,116	489,087
Other	<u>14,963</u>	<u>16,106</u>
	<u>\$1,477,839</u>	<u>\$1,491,953</u>

# HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS

January 2, 2021 and December 28, 2019

### 6. Lines of Credit

The Cooperative has a \$1,000,000 revolving line of credit with the Ledyard Bank which matures December 22, 2022. Interest is payable monthly at The Wall Street Journal prime rate (3.25% at January 2, 2021). The note is secured by a first mortgage on certain real property and substantially all business assets of the Cooperative. The Cooperative is also required to meet certain minimum debt service coverage ratios, among other requirements. The Cooperative was in compliance with these covenants as of January 2, 2021. There were no borrowings related to this agreement outstanding at January 2, 2021 and December 28, 2019.

On June 25, 2020, the Cooperative entered into a \$1,000,000 revolving line of credit with TD Bank, N.A. that can be used to purchase property and equipment. Interest is payable monthly during the draw period based on the prime rate as published by the Wall Street Journal, subject to a floor of 4.0%. The Cooperative may receive funds under this agreement through August 31, 2020, at which time any outstanding balances will be converted into a term loan, with principal and interest payable monthly commencing on September 30, 2021 through August 31, 2026, at which time all unpaid principal and interest become due. The term loan will bear a fixed interest rate equal to the TD Bank borrowing rate, plus 1.67%. The note may be paid in advance without penalty. The fixed asset line of credit is secured by substantially all business assets and will also be collateralized by any assets purchased. The Cooperative is also required to meet certain tangible net worth and debt service coverage ratios, among other requirements. The Cooperative was in compliance with these covenants as of January 2, 2021. There were no borrowings related to this agreement outstanding at January 2, 2021.

On June 25, 2020, the Cooperative entered into a \$1,000,000 revolving line of credit with TD Bank, N.A. that can be used for working capital. Interest is payable monthly based on the prime rate as published by the Wall Street Journal, subject to a floor of 4.0%. 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 working capital line of credit is set to expire on August 31, 2021. The Cooperative is also required to meet certain tangible net worth and debt service coverage ratios, 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 January 2, 2021. There were no borrowings related to this agreement outstanding at January 2, 2021.

### 7. Long-Term Debt

Long-term debt consisted of the following at January 2, 2021 and December 28, 2019:

	<u>2020</u>	<u>2019</u>
TD Bank, N.A.:		
Note payable with variable interest equal to LIBOR, plus 1.67% subject to interest rate swap described below and principal payable in monthly installments ranging from \$6,347 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 certain personal property, and a security interest in substantially all other assets. The Cooperative is required to meet certain minimum debt service coverage and tangible net worth ratios, among other requirements.	\$2,667,753	\$ —

**HANOVER CONSUMER COOPERATIVE SOCIETY, INC.**

NOTES TO FINANCIAL STATEMENTS

January 2, 2021 and December 28, 2019

**7. Long-Term Debt (Continued)**

	<u>2020</u>	<u>2019</u>
TD Bank, N.A.:		
Note payable with variable interest equal to LIBOR, plus 2.00% subject to interest rate swap described below and principal payable in monthly installments ranging from \$7,383 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 certain personal property, and a security interest in substantially all other assets. The Cooperative is required to meet certain minimum debt service coverage and tangible net worth ratios, among other requirements.	\$3,262,388	\$ —
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.	28,830	39,999
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.	13,382	17,052
Ledyard National Bank:		
Payable in monthly installments of \$6,525 including interest at 4.50% due January 2022. The note was secured by equipment and a second security interest in substantially all other assets. The Cooperative was required to meet certain minimum debt service coverage ratios, among other requirements. This note was fully repaid from proceeds of new financing from TD Bank, N.A. in June 2020.	—	155,426
National Cooperative Bank, N.A.		
Payable in monthly installments of \$40,727 including interest at 5.00% through February 2026. The note was secured by a first mortgage on certain property and certain personal property, and a second security interest in substantially all other assets. The Cooperative was required to meet certain minimum debt service coverage ratios, among other requirements. This note was fully repaid from proceeds of new financing from TD Bank, N.A. in June 2020. The Cooperative incurred a prepayment penalty of \$71,445 in order to repay this note payable.	—	2,563,432
Paycheck Protection Program Loan – see below.	<u>682,450</u>	<u>—</u>
	6,654,803	2,775,909
Less current maturities of long-term debt	(563,675)	(457,853)
Less unamortized deferred financing fees	<u>(51,282)</u>	<u>(32,253)</u>
	<u>\$6,039,846</u>	<u>\$2,285,803</u>

# HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS

January 2, 2021 and December 28, 2019

### 7. **Long-Term Debt (Continued)**

#### *Paycheck Protection Program Loan*

On April 24, 2020, the Cooperative entered into a promissory note for an unsecured loan in the amount of \$3,000,000 through the Paycheck Protection Program (PPP) established by the CARES Act and administered by the U.S. Small Business Administration (SBA). The PPP provides loans to qualifying businesses for amounts up to 2.5 times the average monthly payroll expenses of the qualifying business. The loan and accrued interest had original terms that were forgivable as long as the borrower used the loan proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains its payroll levels for an eight-week or 24 week period, as defined. The amount of loan forgiveness would be reduced if the borrower terminated employees or reduced salaries during the covered period. Certain modifications to PPP loan terms were signed into law in June 2020 and October 2020 that changed the forgiveness, covered period, deferral period and forgiveness periods. The PPP loan was made for the purpose of securing funding for salaries and wages of employees that may have otherwise been displaced by the outbreak of COVID-19 and the resulting detrimental impact on the Cooperative's business. Ledyard National Bank (the Lender) processed and funded the PPP loan. The loan bears interest at 1.0%, with principal and interest payments deferred until the date the SBA remits the Cooperative's loan forgiveness amount to the lender or for ten months following the end of the covered period. After that, the loan and interest would be paid back over a period of two years, if the loan is not forgiven under the loan forgiveness terms of the PPP.

When the Cooperative applied for the loan, management believed it would qualify to have the loan forgiven under the terms of PPP, and therefore considered the loan to be, substantively, a conditional government grant. The Cooperative has performed initial calculations for PPP loan forgiveness, and expects that \$2,317,550 of the \$3,000,000 PPP loan will be forgiven because (1) the Cooperative, as of January 2, 2021, utilized the proceeds that were requested for forgiveness to cover payroll and other qualified expenses and (2) the Cooperative believes it will continue to comply with other terms and conditions necessary for forgiveness.

As such, the Cooperative has determined that \$2,317,550 of the \$3,000,000 PPP loan proceeds should be accounted for as a government grant. As accounting principles generally accepted in the United States of America do not contain guidance on the accounting for government grants, the Cooperative is following the guidance in International Accounting Standards No. 20, *Accounting for Government Grants and Disclosure of Government Assistance* (IAS 20). Under the provisions of IAS 20, a forgivable loan from the government is treated as a government grant when there is reasonable assurance that the entity will meet the terms for forgiveness of the loan. As discussed above, the Cooperative believed there is reasonable assurance it met the terms of forgiveness as of January 2, 2021. Under IAS 20, government grants are recognized in income as required activities are undertaken. As the Cooperative believes that it completed the required activities by utilizing PPP proceeds for payroll, and other qualified expenditures, prior to January 2, 2021, it has recognized PPP grant income for \$2,317,550 of the \$3,000,000 PPP loan. The remaining \$682,450 has been recorded within long-term debt and is expected to be repaid over two years beginning on the date the SBA remits the Cooperative's loan forgiveness amount to the lender or ten months after the end of the covered period in equal installments, plus interest.

**HANOVER CONSUMER COOPERATIVE SOCIETY, INC.**

NOTES TO FINANCIAL STATEMENTS

January 2, 2021 and December 28, 2019

**7. Long-Term Debt (Continued)**

The Cooperative formally submitted an application for forgiveness on September 30, 2020. The application for forgiveness requires the approval of the lender, Ledyard National Bank and then it must be approved by the SBA. To date, the SBA has not approved Cooperative's forgiveness application. Management believes the SBA will approve its forgiveness application because it believes the Cooperative has met all requirements and conditions for forgiveness. However, there is no assurance that the SBA will approve forgiveness. In the event the SBA declines the forgiveness application, the loan will be required to be repaid in full, with interest, over two years, unless the lender approves a term of five years. In addition, the Cooperative would be required to reverse the grant income recognized in 2020, which would result in a charge to 2021 income in the amount of \$2,317,550. Any loan forgiveness approved is also subject to future audit by the SBA.

*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 LIBOR rates. 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 January 2, 2021 are summarized below:

<u>Outstanding Debt Balance and Notional Amount of Swap at January 2, 2021</u>	<u>Swap Maturity Date</u>	<u>Variable Rate paid by Counterparty</u>	<u>Fixed Rate Paid by the Cooperative</u>	<u>Fair Value at January 2, 2021</u>
\$2,667,753	June 25, 2030	1.853%	2.503%	\$ (27,928)
3,262,388	June 25, 2030	2.146	2.834	(34,131)

Since the above agreements meet the criteria for designation as a cash flow hedge under applicable accounting standards, the offsetting amounts (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 year ended January 2, 2021 are not material.

As of January 2, 2021, long-term debt matures as follows:

<u>Fiscal Periods Ending on or Around December 31</u>	<u>Amount</u>
2021	\$ 563,675
2022	501,945
2023	187,746
2024	186,098
2025	191,260
Thereafter	<u>5,024,079</u>
	<u>\$6,654,803</u>

**HANOVER CONSUMER COOPERATIVE SOCIETY, INC.**

NOTES TO FINANCIAL STATEMENTS

January 2, 2021 and December 28, 2019

**8. Income Taxes**

The provision (benefit) from federal and state income taxes consists of the following at January 2, 2021 and December 28, 2019:

	<u>2020</u>	<u>2019</u>
Currently payable:		
Federal	\$ —	\$ 4,066
State	<u>72,135</u>	<u>65,697</u>
	72,135	69,763
Deferred:		
Federal	(48,367)	(32,938)
State	<u>40,793</u>	<u>(456)</u>
	<u>(7,574)</u>	<u>(33,394)</u>
	<u>\$ 64,561</u>	<u>\$ 36,369</u>

Deferred tax assets and liabilities consist of the following at January 2, 2021 and December 28, 2019:

	<u>2020</u>	<u>2019</u>
Deferred tax assets:		
Inventory valuation	\$ 7,783	\$ 8,925
Unclaimed patronage refund	29,845	29,808
Federal net operating loss carryforward	132,020	34,231
Interest rate swap agreements	13,861	—
Other	<u>61,586</u>	<u>59,319</u>
	245,095	132,283
Deferred tax liabilities:		
Depreciation	319,165	295,657
Patronage refunds on investments in other cooperative	37,854	35,404
Prepaid expenses	65,724	40,367
Accrued compensation	22,123	12,995
PPP loan	<u>30,934</u>	<u>—</u>
	<u>475,800</u>	<u>384,423</u>
Net deferred tax liability	<u>\$230,705</u>	<u>\$252,140</u>

The Cooperative has federal tax net operating loss carryforwards of \$605,543 at January 2, 2021, of which \$163,024 of net operating loss carryforwards will begin to expire in 2037. The remaining \$442,519 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.

# HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS

January 2, 2021 and December 28, 2019

### 8. Income Taxes (Continued)

The Cooperative's effective income tax rate in the periods ended January 2, 2021 and December 28, 2019, is lower than would be expected if the federal statutory rate was applied to earnings primarily because the grant income resulting from the PPP loan is nontaxable for federal purposes for the year ended January 2, 2021. The State of New Hampshire Business Enterprise tax is accounted for as an income tax, which increases the effective income tax rate for the periods January 2, 2021 and December 28, 2019.

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

During the periods ended January 2, 2021 and December 28, 2019, 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 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."

#### 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.

# HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS

January 2, 2021 and December 28, 2019

### 9. **Members' Equity (Continued)**

During 2020 and 2019, members exchanged 2,390 and 6,567, respectively, of current Class B shares for new Class B shares, which resulted in the reclassification of \$12,739 and \$36,319, respectively, from capital stock to mandatorily redeemable stock, which is reported as a non-current liability. As of January 2, 2021, there are 48,035 shares of current Class B shares outstanding, representing \$240,195 of equity that could be reclassified to non-current liabilities upon exchange by members. As of December 28, 2019, there are 50,710 shares of current Class B shares outstanding, representing \$253,570 of equity that could be reclassified to 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. The Cooperative cancelled no shares during the years ended January 2, 2021 and December 28, 2019.

#### *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 January 2, 2021 and December 28, 2019.

### 10. **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 (adjusted annually) and an allocation of common area maintenance costs (totaling approximately \$318,000 in 2020 and \$340,000 in 2019). 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.

# HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS

January 2, 2021 and December 28, 2019

### 10. Commitments (Continued)

The Cooperative leases facilities in White River Junction, Vermont, for the operation of a food store through May 2025. Base rent currently approximates \$19,000 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 2021, with an option to renew the lease for an additional two-year term. Base rent currently approximates \$4,000 per month, adjusted annually based on the CPI, as defined.

On January 11, 2019, the Cooperative entered into a lease agreement for new office space in White River Junction, Vermont, with the lease commencing May 22, 2019. The initial term of the lease is five years, with two additional five year renewal options. Base rent which includes common area fees is approximately \$20,800 per month, with an annual 2% increase.

On October 16, 2018, the Cooperative entered into a lease agreement to open a new service center in Norwich, Vermont through December 2022, with an option to renew the lease for an additional ten year term. Base rent currently approximates \$15,600 per month, with an increase of approximately 3.5% each year, plus an allocation of common area maintenance fees.

Certain operating leases contain a rent escalation clause. The Cooperative recognizes rent expense ratably over the terms of the lease agreements, computed by dividing the total rents payable by the number of months of the lease terms. The incremental rent expense charged to operations under operating lease agreements with escalating payments amounted to approximately \$77,000 and \$94,000 for the years ended January 2, 2021 and December 28, 2019, respectively.

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

<u>Fiscal Periods Ending on or Around December 31</u>	<u>Amount</u>
2021	\$ 1,580,975
2022	1,549,728
2023	1,433,121
2024	1,287,021
2025	1,031,777
Thereafter	<u>6,973,401</u>
	<u>\$13,856,023</u>

# HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS

January 2, 2021 and December 28, 2019

### 10. **Commitments (Continued)**

The Cooperative had rental expense, which is recognized ratably over the period of the related lease, of approximately \$2,057,000 and \$2,003,000 for the periods ended January 2, 2021 and December 28, 2019, respectively, which includes common area maintenance costs of \$318,000 in 2020 and \$340,000 in 2019.

#### *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 terminates the supplier agreement prior to May 8, 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 recorded \$225,705 and \$282,131 related to this agreement in equipment obligation on the accompanying balance sheets at January 2, 2021 and December 28, 2019, respectively. The obligation decreased by \$56,426 in May 2020 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.

### 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 \$524,000 and \$362,000 in the periods ended January 2, 2021 and December 28, 2019, respectively. There were no discretionary contributions made in the periods ended January 2, 2021 and December 28, 2019.

### 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 \$2,522,000 and \$2,525,000 in 2020 and 2019, respectively, in connection with this plan. The financial statements include a liability for claims incurred but not yet reported in the amount of approximately \$147,000 and \$231,000 as of January 2, 2021 and December 28, 2019, respectively.

# HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS

January 2, 2021 and December 28, 2019

### 13. Major Suppliers

During the period ended January 2, 2021, the Cooperative purchased approximately \$26,544,000 (41% of total purchases) of its goods from an unrelated party and AGNE, a related party (see note 5). At January 2, 2021, amounts due to these suppliers, included in accounts payable, totaled approximately \$708,000.

During the period ended December 28, 2019, the Cooperative purchased approximately \$22,374,000 (39% of total purchases) of its goods from an unrelated party and AGNE, a related party (see note 5). At December 28, 2019, amounts due to these suppliers, included in accounts payable, totaled approximately \$771,000.

### 14. Related Party Transactions

The Cooperative is a member of AGNE (see note 5). The Cooperative purchased goods and groceries from AGNE of approximately \$16,145,000 and \$12,982,000 during the periods ended January 2, 2021 and December 28, 2019, respectively. Amounts due to AGNE, included in accounts payable, were approximately \$256,000 and \$234,000 at January 2, 2021 and December 28, 2019, respectively. Patronage refunds due from AGNE, included in accounts receivable, were approximately \$150,000 and \$135,000 at January 2, 2021 and December 28, 2019, 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 January 2, 2021 and December 28, 2019, were approximately \$2,157,000 and \$1,749,000, respectively. The discounts on these sales were netted against the gross sales in the statement of operations and approximated \$432,000 and \$347,000, for the periods ended January 2, 2021 and December 28, 2019, respectively.

Amounts due from members of approximately \$166,000 and \$172,000 are included in accounts receivable at January 2, 2021 and December 28, 2019, respectively.

See also notes 5 and 7 for additional disclosure related to investments in cooperatives and the outstanding mortgage from National Cooperative Bank, N.A.

### 15. Fair Value Measurements

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.

# HANOVER CONSUMER COOPERATIVE SOCIETY, INC.

## NOTES TO FINANCIAL STATEMENTS

January 2, 2021 and December 28, 2019

### 15. Fair Value Measurements (Continued)

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;

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.

Assets and liabilities measured at fair value are based on one or more of three valuation techniques. The three valuation techniques are as follows:

- *Market approach* – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities;
- *Cost approach* – Amount that would be required to replace the service capacity of an asset (i.e., replacement cost); and
- *Income approach* – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques).

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:

#### Investments in Other Cooperative Associations

Investments in other cooperative associations totaling \$1,477,839 and \$1,491,953 at January 2, 2021 and December 28, 2019, 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.

**HANOVER CONSUMER COOPERATIVE SOCIETY, INC.**

NOTES TO FINANCIAL STATEMENTS

January 2, 2021 and December 28, 2019

**15. Fair Value Measurements (Continued)**

*Interest Rate Swap Agreements*

The fair value of the interest rate swap liability totaling \$62,059 at January 2, 2021 has 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 January 2, 2021 and December 28, 2019

	<u>2020</u>	<u>2019</u>
Store operations expenses:		
Store wages and benefits	\$14,324,292	\$12,453,421
Facilities cost	3,963,671	3,926,081
Credit card expenses	1,338,959	1,142,976
Selling and other costs	1,276,802	1,094,684
Equipment costs	<u>679,796</u>	<u>682,605</u>
	21,583,520	19,299,767
General and administrative expenses:		
Information technology department expenses	1,286,895	1,051,440
Administrative expenses	1,506,535	1,065,829
Merchandising expenses	984,542	871,899
Education expenses	966,033	906,757
Finance department expenses	954,427	577,658
Facilities maintenance department expenses	590,966	609,579
Human resources department expenses	539,437	516,776
Board of directors expenses	109,727	128,773
Public relations expenses	<u>35,426</u>	<u>44,728</u>
	<u>6,973,988</u>	<u>5,773,439</u>
	<u>\$28,557,508</u>	<u>\$25,073,206</u>

**HANOVER CONSUMER COOPERATIVE SOCIETY, INC.**

**SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES**

Years Ended January 2, 2021 and December 28, 2019

	<u>2020</u>	<u>2019</u>
Salaries and benefits	\$4,780,230	\$3,983,422
Equipment expenses	225,797	148,227
Equipment depreciation	292,481	250,277
Building leases	256,549	259,256
Professional fees	270,447	186,733
Telephone	149,275	143,472
Advertising	71,108	82,933
Consulting fees	22,924	59,585
Dues and subscriptions	128,627	36,725
Meals, entertainment and vehicle reimbursement	13,286	41,910
Education and training	39,688	46,338
Technical maintenance contracts	241,394	123,170
Supplies	79,827	37,814
Occupancy costs	209,869	191,788
Insurance	31,851	30,098
Postage	21,945	23,469
Printing	12,155	18,814
Graphics and promotional expenses	45,147	28,189
Employee relations and programs	50,728	16,368
Software licenses	6,799	35,369
Bank charges	16,397	19,652
Demo expenses	467	4,027
Contributions	5,533	9,326
Membership meeting	3,038	2,929
Co-op news	653	162
Other	<u>(2,227)</u>	<u>(6,614)</u>
	<u>\$6,973,988</u>	<u>\$5,773,439</u>