

K E W E E N A W
CO-OP

— 2015 —

Annual Report

Community Owned Since 1973

Hancock, MI • keweenaw.coop • 906.482.2030

From the Board



I'm delighted to share with you essentially the same message from the last newsletter, or even last year's Annual Report. Sales are up, profits are up, local purchases are up, ownership continues to grow, the staff is doing great things, management is leading the way in new ideas and growth, and the Board is doing its utmost to assist. Frankly, all is good.

Yes, profits are up and the financial condition of KCI has never been better. Yet this year we initiated, and have almost completed, the single biggest expense since we bought the Ethel Street building—the store reset and renovation. New floors, new displays, new equipment, a nicer store overall for shoppers and staff. With no debt! All paid for from current income and moderate withdrawals from the checking account. And all with continued 7–8% growth in sales! Contrast that to the overall growth of the GDP.

So why is KCI beating the GDP and even many of our peer group of co-ops? I offer you one possibility, which is what motivates me, and I believe the Board, to continue to work for the Co-op: We make a difference!

Yes, we are a small community at the end of the road in the middle of nowhere. This can be an end of story statement, or an opportunity to action. We are not tied down by corporate burdens or limited by pre-existing conditions. Rather, we can, and are, effectively reaching our Ends. We welcome new owners (about a dozen a month), we embrace local suppliers and vendors (purchases up double digits from a year ago), and we consistently give back through our advocacy and involvement in the community.

I ask you, the owners of KCI, to take a moment and recognize the impact we're having. Our store is vibrant and active ; we are embracing change, celebrating tradition and laying the groundwork for future success. Which is why this year your Board launched a relocation initiative and policy. Ethel Street is a special place, but we are rapidly outgrowing it. We have

discussed relocation since before I was on the Board, and each time, for prudent and sound reasons we have said no, not yet. Now we say—YES it is time!

Your Board has prudently invested in market studies, fiscal surveys, and other analytical tools. All provide one clear conclusion—that to continue working towards our Ends, to continue to serve ourselves and our community—we need to relocate, expand, and grow. Which isn't to say there aren't risks involved.

So what is your, the ownership's, role in all of this? It is simple, to decide: Should we or should we not? We, the Board, have committed, management and staff are for it, financials look good...but NOTHING will be finalized without the voice of the owners. A Special Meeting, along with many (and I do mean many) focus groups, and whatever other mechanisms (e-mails, letters, conversations) will be employed to bring everyone's thoughts and opinions together. We need to speak with one voice. We are verging on 1300 owners from a base population of 30,000—pretty impressive.

Will we all have a single opinion? Perhaps, but I doubt it. More important is to have a base of agreement for our collective voice.

The Board and management see relocation as the best solution. Location, funding, store design, and other specifics are still up in the air, but the options look good, very good! Stay tuned, perhaps by the Annual Meeting or shortly thereafter we will be able to offer more specifics. Then we can—and will, I trust—proceed together in a cooperative fashion. Since Rochdale* in the 1840s, co-ops have risen to the occasion, how can we not do so too?

Carl Blair
Board President

**Rochdale was the agreement which created the "modern" co-op in 1844. The Keweenaw Co-op's Ends are based on these 7 cooperative principles proudly displayed at our store.*

Carl Blair
President

Heather Dunne
Vice President

Samantha Gonzalez-Flora
Secretary

Mike LaBeau
Director

Mike Mallow
Director

Sergei Casper
Director

Susan Serafini
Treasurer

John Slivon
Director

Patrick Walls
Director

Caring for Community in 2015



20,000

Bags Saved in 2015

Community Sponsorships

31 Organizations

32 Events

\$8,369 Donated
(not including labor)

Co+op Explorers Program

145

Kids participating
(age 12 and under)

Senior/Student Day Discounts **\$12,578**

Special Order Case Discounts **\$15,600**

Owner Appreciation Day Discounts **\$4,284**

Co+op Deals & New Owner Coupons **\$4,252**

NCG Promotional Rebates (passed on to customers) **\$17,200**

Savings • Support • Education

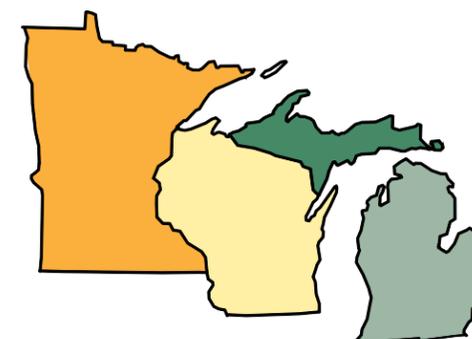
Supporting Local/Regional Suppliers

Of every **\$1.00** spent on:

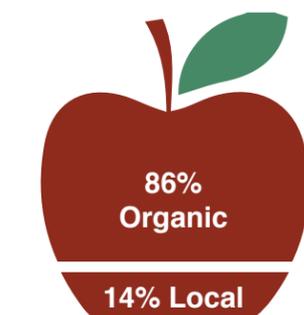
Goods
\$0.34

Services
\$0.80

Stays in MI, WI & MN



Eating Healthy



86% Organic

14% Local

2015 Produce Sales

\$279,516

Balance Sheet

	2013	2014	2015
ASSETS			
Current Assets	693,947	679,724	648,387
Property/Equipment	41,076	56,706	172,857
Other Assets	22,026	29,269	33,627
Total Assets	\$757,049	\$765,699	\$854,871
LIABILITIES			
Current Liabilities	127,978	78,941	110,748
Total Liabilities	\$127,978	\$78,941	\$110,748
EQUITY			
Pre-2010 Equity	38,367	38,208	38,098
Owner Equity	159,146	175,476	196,381
Retained Patronage	46,750	60,924	74,147
Retained Earnings	372,668	384,808	412,150
Net Income	12,140	27,342	23,347
Total Equity	\$629,071	\$ 686,758	\$744,123
Total Liabilities/Equity	\$757,049	\$765,699	\$854,871

The value of our business has increased 12.7% over the past 3 years. This represents continued Owner Investment (Owner Shares), retained Patronage Refunds and retained Net Profit. Capital Improvements were funded by this investment in 2015 as indicated by the shift in assets from cash (Current Assets) to equipment.

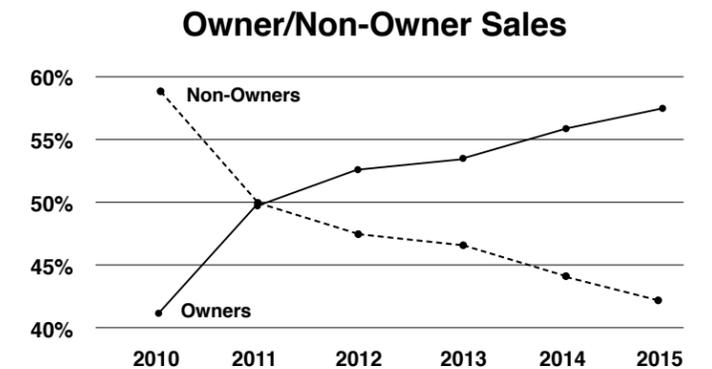
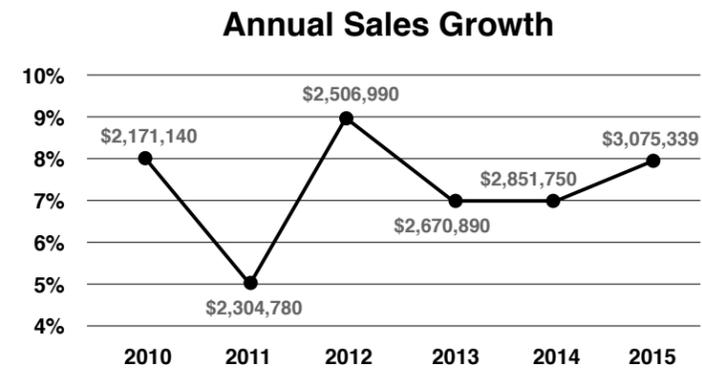
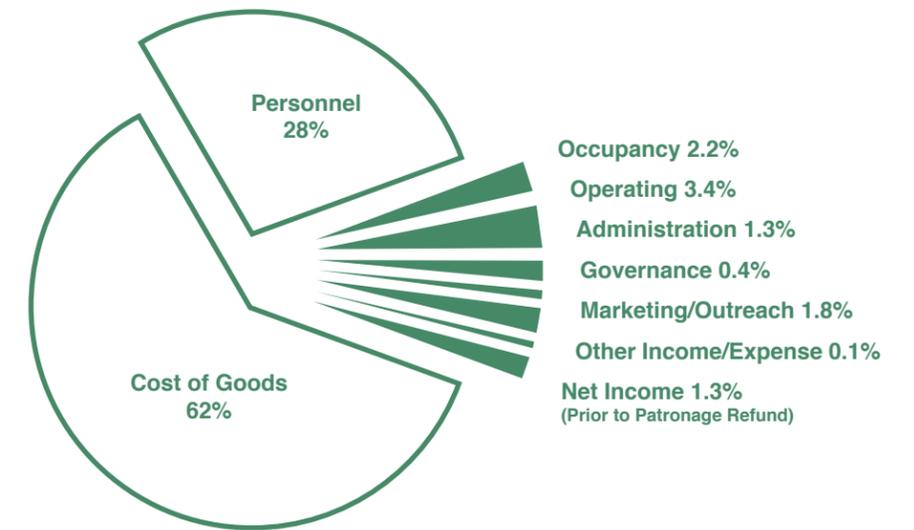
Income Statement

	2013	2014	2015
Sales	2,670,892	2,851,753	3,075,339
Cost of Goods	(1,628,249)	(1,745,823)	(1,900,011)
Gross Profit	\$1,042,643	\$1,105,930	\$1,175,328
Operating Expenses			
Personnel	747,480	803,993	851,859
Occupancy	61,782	64,954	68,386
Depreciation	11,703	11,421	14,081
Operations	109,980	95,807	103,808
Administration	21,879	29,726	41,452
Governance	15,922	15,321	13,034
Marketing/Outreach	36,050	48,029	54,031
Total Expenses	\$1,004,796	\$1,069,251	\$1,146,651
Operating Income	\$37,847	\$36,679	\$28,677
Other Income/Expenses	4,571	14,213	14,753
Patronage Refund	(22,077)	(18,590)	(16,940)
Income Tax Paid	(8,201)	(4,960)	(3,143)
Net Income	\$12,140	\$27,342	\$23,347

Sales remained strong in 2015. Our Gross Margin remained stable. Operating Expenses were steady, with a few notable changes: Depreciation grew as we started to expense capital investments from the 2015 Reset. Administration increased due to consultant expense related to expansion and relocation planning. Marketing and Outreach investment grew as we continue to focus on connecting with the broader community.

2015

Total Sales
\$3,075,339



From the General Manager



Your support was key in making 2015 another successful year for the Keweenaw Co-op. Thank you! It was a year that saw big changes. Changes that allowed us to serve you better and better fulfill the Co-op's Ends.

We crossed the 100,000-transaction line in 2015, nearly 10,000 more than in 2014, and those transactions added up to over \$3 million in

sales. We ended the year with 1,158 Owners, adding 120 to our roles--our largest net gain since 2011. On average half of our Owners choose payment plans, and we are pleased that we can make Co-op Ownership affordable for everyone.

We are here to serve you. We upgraded our Customer Service Program have conducted multiple trainings. We empowered staff to 'make things right' for customers and developed a system for tracking those efforts so we can avoid repeated mistakes. Plus, we upgraded equipment and our facility to better serve the your needs, and the response has been overwhelmingly positive!

Good food at good prices. We continue to promote the Co+op Deals program and added the Co+op Basics program as ways to keep shopping at the Co-op affordable for all. Beyond that we continue to revamp our Pricing Strategy to better reflect our values.

Local farms build resilient food systems. We supported 14 local farms with nearly \$40,000 of purchases (10.3% increase over 2014). In 2015 the Co-op participated in the Local Food Summit, the Western UP Food Hub and the GAP (Good Agricultural Practices) Training in effort to bolster local farming.

A vibrant food system is based on local control. Our purchases from independent distributors and direct purchases from independent producers increased by 7.7% in 2015. The percentage of total purchases represented by independent distributors and direct purchases from independent producers increased by 0.2%.

The cooperative business model builds an alternative economy. We do business with 13 Co-ops and have working relationships with over 15 additional Co-ops. We share information, resources and support with other Great Lakes Co-ops on a regular basis. We are directly invested in four other Co-ops and indirectly invested in many others through Shared Capital Cooperative investments (a lending institution for Co-ops).

Concern for community. In 2015 the Co-op gave to 31 community organizations and 32 community events, totaling over \$8,000 (excluding our labor investment in coordinating our community outreach program and events) in 2015. Our Bring-a-Bag Campaign gave \$1,000 to local non-profits selected by our Owners. That also means 20,000+ bags saved!

Owners benefit. Four Owner Appreciation Days gave our Owners nearly \$4,300 in savings over the year. Special Orders saved Owners over \$15,000. And there's something for the new for kids, too: Co-op Explorers! We brought you Co-op events that included our Annual Meeting and Harvest Gathering. Plus co-sponsored events like Tedx and the Canal Run.

More ways to participate. We added Absentee Ballots to the annual vote. We're partnering with other organizations to make more classes available. As we look to the future, we will be drawing on our Owners for guidance on

how to grow the Co-op to fill their needs.

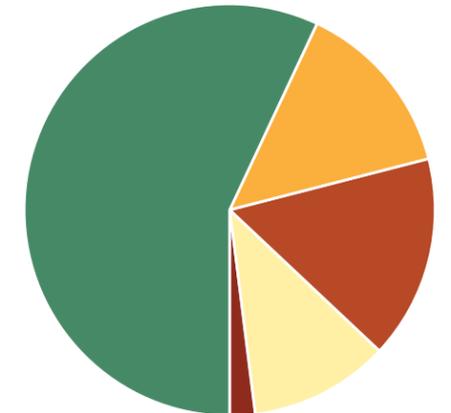
Connecting people. The shopping experience that we offer to Owners and first-timers alike was greatly improved by the 2015 Reset. We hear again and again how much more folks like shopping at the Co-op now, and how much longer they stay. As one person put it, "There are little celebrations in every aisle" as people meet and converse at the Co-op. Our quarterly in-house parties—Owner Appreciation Days—have become our biggest sales days and good energy abounds.

Telling the story. We keep searching for the best way to educate our consumers at the point of sale. It can be confusing (too much signage), labor intensive to maintain and sometimes preachy, but it's part of our mission. We have decided to bring How Good ratings (howgood.com) to our shelves in hopes of offering clear, efficient and inviting information at the point of sale.

Getting the work done. Of course the engine behind all of this progress is our hard-working, upbeat staff. We heard from them through the 2015 Staff Survey that the Co-op has work to do to better serve them. In response, we are focusing on improving communication systems, conflict resolution and teambuilding—three distinct yet interconnected needs. The biggest outcome is that the process of hiring a Human Resources Manager has begun. We are also revisiting wages and benefits with an eye toward opening up more fulltime positions. Improvements to our training program are underway.

You'll have many opportunities to share your thoughts with us in 2016. We look forward to hearing from you when the Co-op conducts another Customer Satisfaction Survey (In 2014 92% of the respondents were Owners). We'll also start rounds of input gathering regarding our future home.

Percentage of Total Sales by Department
\$3,075,339



- **Grocery** 57%
- **Produce** 14%
- **Prepared Foods** 16%
- **Wellness** 11%
- **General Merch** 2%

148⁺ Cooperatives we network with

13 Cooperatives we do business with

18 Cooperatives on our shelves

5 Cooperatives we belong to

Total Transactions
106,357

40

Co-op Employees

Average:
Weekly Sales
\$59,393

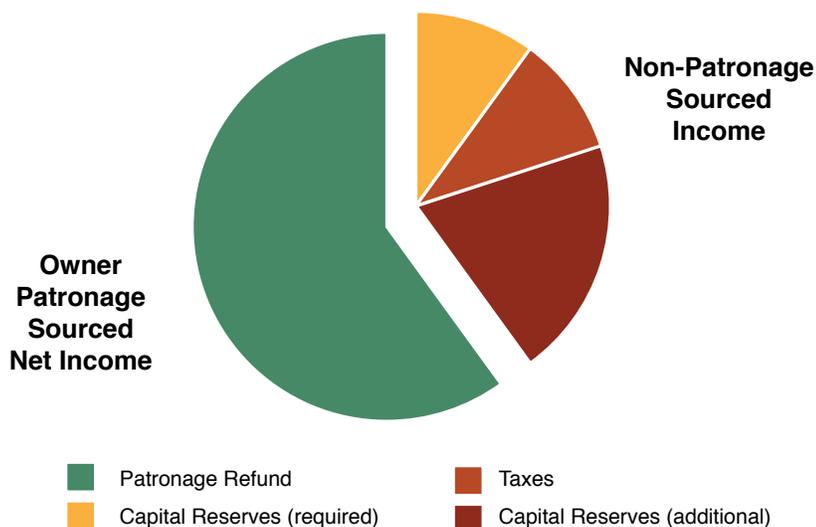
Daily Sales
\$8,485

Busiest Day of the Week?
Wednesday

58% Sales to Co-op Owners

Customers per day
297

Patronage Refunds



At the end of the fiscal year, net income from operations is invested in the Co-op or returned to Owners, depending on the source of the profit and each Owner's level of patronage. Income that is attributable to sources other than Owner transactions (i.e. non-owner transactions) is separated from those attributed to Owner transactions.

Income taxes are paid from non-owner transactions. Also, 10% of the net income is invested from these non-owner transactions into the Co-op's Capital Reserve. Any remaining non-owner transaction income is allocated to the Capital Reserve.

Net operating income from Owner transactions is allocated to Owners as a Patronage Refund by dividing it among Owners based on how much each Owner purchased that year. According to the tax code that allows the Co-op to deduct Patronage Refunds from its taxable income, the Board must return to Owners at least 20% of the Patronage Refund in cash/coupon. The other 80% can be either returned in cash/coupon or retained as Owner Equity (Retained Patronage), based on the capital needs of the Co-op at any given time. This will vary by year.

Patronage Refunds will not affect Owners' taxable income unless you are purchasing items from the Co-op for business purposes and deducting the purchases as business expenses.

Each Owner's retained equity is their investment that remains in the Co-op for the future needs of the Co-op. When the Board believes it is fiscally prudent, they will set aside Co-op money to return Owner Equity based on the Board's equity redemption policy. See the Articles of Incorporation and the Bylaws for more detailed information.

NOTE: It is an Owner's responsibility to communicate with the Co-op concerning changes to your contact information. This can be done at the store, by email, by phone, or by written notification. Owner capital, including capital stock, patronage refund, and capital credits, will be forfeited if a Owner cannot be located as described in the Co-op's Articles of Incorporation.



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Website

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Store Hours

Open Daily 8am-8pm

