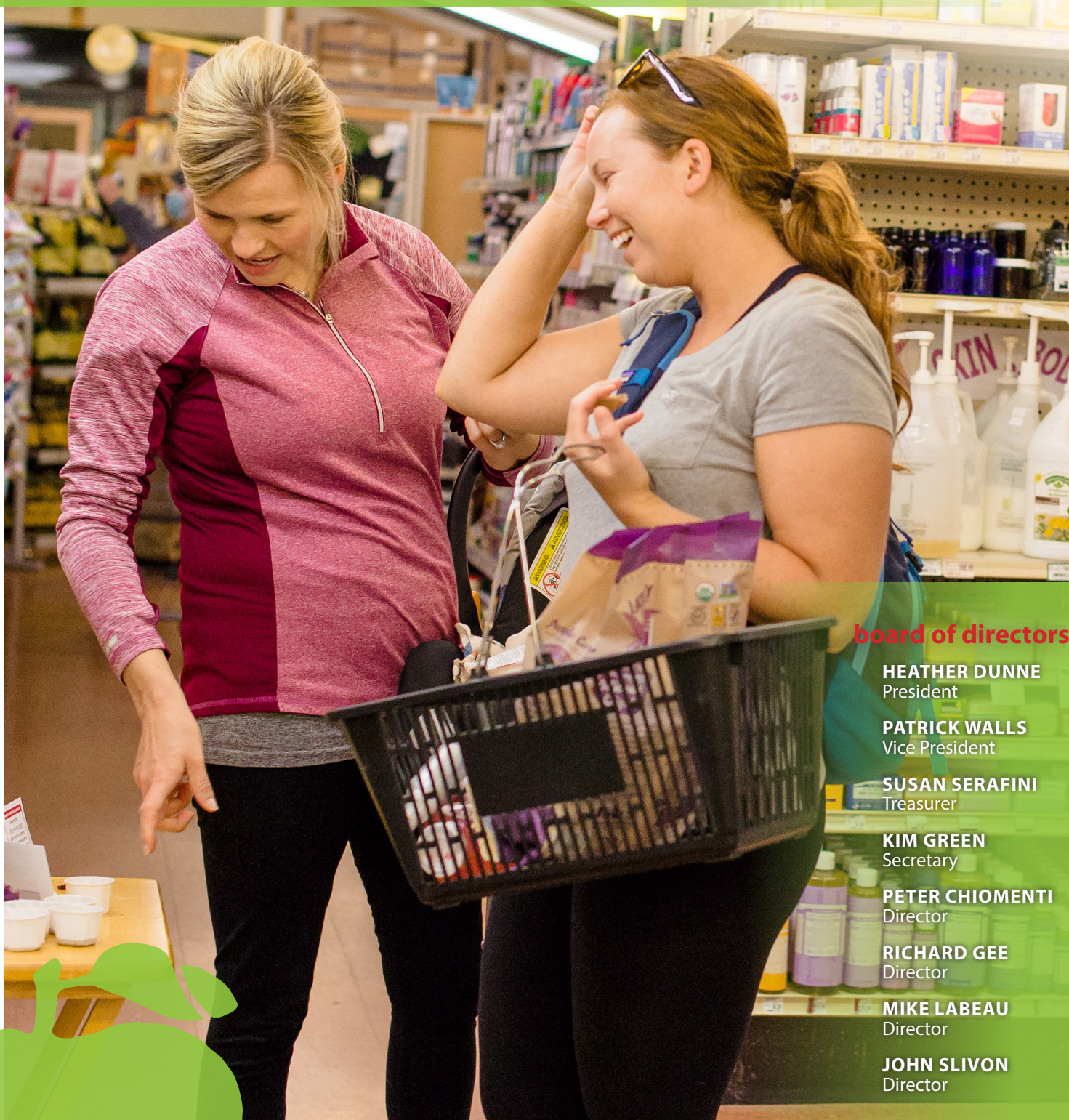


2018 annual report

Community Owned & Operated Since 1973

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board of directors

HEATHER DUNNE
President

PATRICK WALLS
Vice President

SUSAN SERAFINI
Treasurer

KIM GREEN
Secretary

PETER CHIOMENTI
Director

RICHARD GEE
Director

MIKE LABEAU
Director

JOHN SLIVON
Director

from the board

What has the board been up to?

This past year, the board of directors continued to work with co-op management and staff. Our work as board directors has us set co-op policies, approve budgets, interact with owners, and monitor operations with the intention of adapting and thriving in an everchanging market place. The Board is also responsible for long-term strategic planning and this year we turned our attention to future growth and expansion.



As part of supporting our general manager and staff and strategic planning for relocation, the board participated in a brainstorming activity this past year. The board determined and ranked the board's top four priorities when searching for a new store, based on previous survey data collected from owners.

At our annual retreat, we decided to spend some time training new board directors, talking about staff and owner engagement, and discussing our role in relocation. We decided we would invite staff to our board meetings in order to become familiar with their role in the co-op and for the board to define our role. I'm happy to say this has been successful and we have had many wonderful conversations with staff.

The board looks to continue its efforts in engaging owners to share in our wonderful co-op community. We are always open to any suggestions owners may have to encourage others to build and participate in our community. Owners can simply talk to others about the shopping benefits as well as attending co-op events and even becoming an owner or board director! The board is happy to see so many owners participating in this year's board director election!

In the future, board directors look to lead a capital campaign or high impact fundraising goal, when the timing is right for relocation, and we will need the help of all our owners and community members to help with fundraising efforts and investing in our Keweenaw Co-op.

REMEMBERING AN IRREPLACEABLE DIRECTOR AND FRIEND

As I remember Joe Freed's passing many thoughts run through my mind. Joe starting serving as a director on the Keweenaw Co-op Board in June of 2017. He immediately had an eagerness to learn how to be an effective director and navigate policy governance. During our social time in the beginning of meetings, Joe would bring something to share with the rest of the board. He was always willing to volunteer for committees or any task needed. Most importantly, Joe was always a staunch advocate for owners. His outgoing personality, infectious smile, and wise counsel will be long remembered.



caring for OUR community in 2018



29,840

Bags Saved in 2018

\$19,839

Senior/Student Day Discounts

\$13,961

Owner: Appreciation Month Discounts

Healthy Eating



\$18,345

Owner: Special Order by the Case Discounts

\$6,652

Co+op Deals & New Owner Coupons

coop explorers

1,598

Participation of Kids 12 and under

Community Sponsorships (not including labor)

26 + 44 = \$5,100

Organizations Events Donated

Every Penny Counts...

- Local 30.3%
- U.P. 31.9%
- Mich 35.7%

of every supports our local and regional economy (including MI, MN, WI)

Passed on to customers **\$88,776** NCG Promotional Rebates

income statement

Sales growth was steady in 2017. Sales growth was a strong 9.9% in 2018. Our Gross Margin softened as a result of our efforts to improve price image and remain competitive. Sales growth outpaced Operating Expenses which grew by 6.3% overall. Labor increased by 5.4% which resulted in a 1% improvement in Labor as a percentage of sales. Operations expense grew, largely in the categories of operating supplies and credit card processing fees. Promotions expense returned to 2016 levels after dipping in 2017.

	2016	2017	2018
Sales	3,291,556	3,519,319	3,867,559
Cost of Goods	(2,003,796)	(2,164,811)	(2,439,441)
Gross Profit	\$1,287,760	\$1,354,508	\$1,428,118

OPERATING EXPENSES

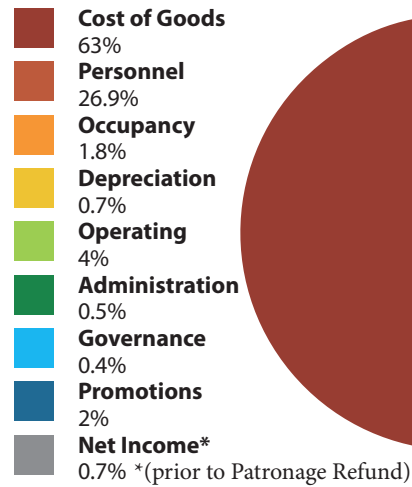
Personnel	904,001	985,791	1,041,525
Occupancy	70,668	69,559	70,169
Depreciation	37,028	29,005	25,531
Operations	110,290	134,544	155,308
Administration	16,517	23,057	19,785
Governance	15,016	12,634	13,826
Marketing/Outreach	64,412	64,096	77,312
Total Expenses	\$1,217,932	\$1,318,686	\$1,403,456

Operating Income	\$69,828	\$35,822	\$24,662
Other Income/Expenses	6,163	16,504	9,862
Patronage Refund	(33,315)	(18,214)	(12,571)
Income Tax Paid	(7,849)	(7,711)	(6,879)
Net Income	\$34,827	\$26,401	\$15,074

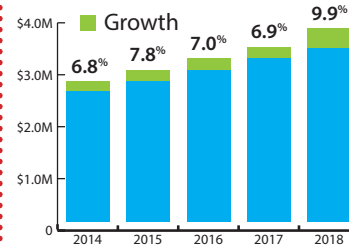
*Estimated payment pending tax filing.

Total Sales
2018

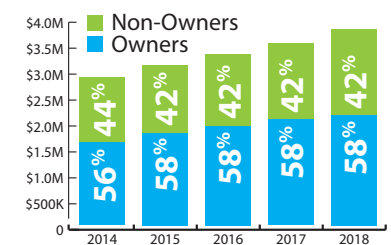
\$3,867,559



Annual Sales Growth



Owner/Non-Owner Sales



balance sheet

Our business continues to grow and our balance sheet is solid. Our current assets, which include savings, short-term investments, inventory and pre-paid expenses increased by 7.6% in 2018. Fixed assets increased slightly as small improvements outpaced depreciation. Other assets increased as our equity in other co-ops grew. Liabilities, our short- and long-term payables, were 17% greater at the end of 2018 than at the end of 2017, primarily due to accrued payroll expenses and bill payment cycles. Equity, which represents Owner investment and retained earnings, grew by 5%.

BALANCE SHEET RATIOS

Current Ratio 5.3 (benchmark 1.25 or above)
(Current Assets divided by Current Liabilities) measures liquidity
Debt to Equity Ratio .17 (benchmark 3.0 or below)
(Total Liabilities divided by Total Equity) measures of solvency
Current Ratio 5.8 (benchmark 1.25 or above)

ASSETS	2016	2017	2018
Current Assets	692,380	788,067	848,615
Property/Equipment	196,133	175,865	177,264
Other Assets	40,218	54,534	59,783
Total Assets	\$928,731	\$1,018,466	\$1,085,662

LIABILITIES	2016	2017	2018
Current Liabilities	102,264	135,157	158,540
Total Liabilities	\$102,264	\$135,157	\$158,540

EQUITY	2016	2017	2018
Pre-2010 Equity	37,998	37,867	37,767
Owner Equity	213,773	233,093	254,732
Retained Patronage	104,235	115,624	122,731
Retained Earnings	435,497	470,324	496,818
Net Income	34,964	26,401	15,074
Total Equity	\$826,467	\$883,309	\$927,122
Total Liabilities/Equity	\$928,731	\$1,018,466	\$1,085,662

Sales per Sq. Foot

Retail store:
4300 sq.ft.

\$900

Avg. Transaction

\$32⁰⁰



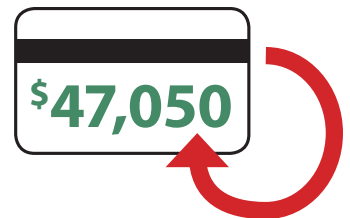
Avg. Inventory

(Last Four
Quarters)

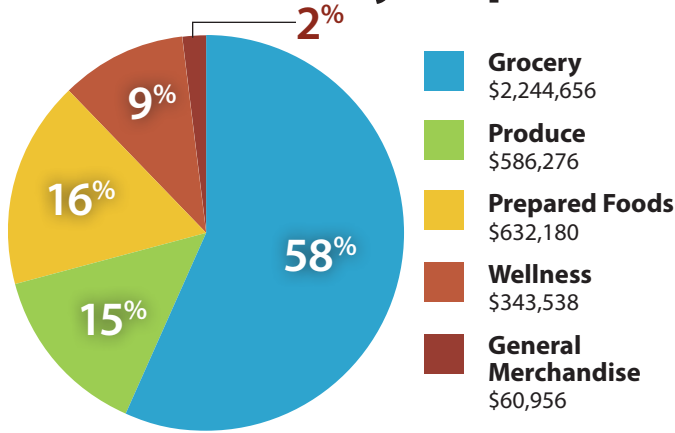


Credit/Debit Processing Fees

\$47,050



Total Sales by Dept (%)



122,196

Total Transactions

By the Numbers



\$74,376

Average Weekly Sales

\$10,743

Average Daily Sales

Current Staff @ The Co-op = 188 Years

+147

Cooperatives We Network With

13

Cooperatives We Do Business With

20

Cooperatives On Our Shelves

5

Cooperatives We Belong To

from the GM

Ends: Your Keweenaw Co-op exists to sustain the physical and social health of our owners, customers and community with: a resilient and ethical food infrastructure; education, activism, and communication; and the advantages of a cooperative business model.

Your Keweenaw Co-op continues to have a positive impact in our community! In our 45th year, we continued to be a viable business, which enabled the Co-op to continue pursuing our Ends. 2018 set out to be a year focused on visioning, site-searching and fundraising for the next Keweenaw Co-op. While oriented in this direction, the specifics of our work focused instead on putting an Organizational Growth Plan in place to meet financial benchmarks for a feasible relocation project.



Curt Webb gives you the scoop on The Coop.

2018 sales growth was great at nearly 10%. However, we didn't meet our gross margin and labor goals. The few point slip in gross margin was partly intentional, as we work to strategically offer better prices, and partly an inexplicable dip in fourth quarter that we anticipate will correct itself in the first quarter of 2019.

We invested a lot in building systems, documenting procedures and technology to help us work productively and improve labor margin. But our efforts have not gained traction as quickly as we'd hoped and some of our initiatives are just now coming on line. We see it as groundwork laid for a stronger 2019 (and beyond!). The Growth Plan includes a restructuring of our organizational chart to allow for more cohesion

among larger store teams and more inter-departmental employee sharing through cross-training and coordinated scheduling.

We sustain our community. In 2018, 92% of fresh produce sold was certified organic! And nearly all of our non-organic offerings were local - from farmers we know and whose growing practices we trust. We're not only supporting local and organic farmers, but making all this fresh nourishment available to our community!

We continue to facilitate meaningful connections between people and with food through the shopping experience we offer ("the little celebrations in every aisle", as one Owner put it), the stories we tell about our products and producers, and community events we host or sponsor, such as the Farm Tour.

Cooperative Principle #7 states that "while focusing on member needs, cooperatives work for the sustainable development of their communities..." In addition to our Bring-a-Bag Campaign, we added a successful Round-Up Program in 2018 to support relief from the Father's Day Flood. Both programs will continue to support the work of non-profit community partners.

Our community also benefits because the Co-op keeps capital in this community. Of every dollar spent at the Co-op, 30.3¢ stayed in the local economy, 35.7¢ stayed in Michigan, and 49¢ remained in the 3-state region. This supports a healthy regional food system. In 2018, this included purchasing over \$31,000 of produce from 23 local farms.

We're excited to implement another wage scale adjustment that, by the end of 2019, will bring all employees to a livable wage after a training period. We're also offering more full-time opportunities, with a goal of at least 60% of our staff at full-time by year-end.

A changing market. We're learning all we can about a new competitor coming to town and what impacts that might have on the Co-op and our expansion plans. Our peers at other co-ops experiencing similar competition have lots of wisdom and tactics to share. As a result, we are updating our Market Study and rethinking what and where we might land in the future, and when it's most advantageous to make a move. One thing we know is that we can only move at the pace that we can move, and at our scale we can't afford mistakes that hurrying such a big project could cause. While an entity the scale of Meijer can move as fast or slow as they wish.

We couldn't do it without you! The Co-op strives to make our community a better place to live and work, and in the process we aim to build mutual support for the Co-op. Our Owners' investment, patronage and input ensure that the Keweenaw Co-op is here to serve our community as we have for 45 years. Thank you again for joining us on this journey.



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