

Durham Co-op Market

Everyone Welcome

Annual Report

July, 2016 to June, 2017



From the Board of Directors

Dear Fellow Owners,

2017 has been another year of exciting growth for our co-op. In our second full year in operation, we continued to grow sales and ownership at a healthy rate. We have made great strides in our operations and worked hard to strengthen our board governance processes and systems.

The board represents the interests of the general ownership including both consumers and workers. We take this responsibility seriously and using policy governance, we outline key areas of responsibility between store staff and the board of directors. In 2017, we updated our bylaws for the first time since the store opened, finalizing our policy objectives and working through changes that clarified board composition and term lengths. In addition, our worker-owner board members completed their first full year on the board, which has allowed the entire board including both consumer and worker owners to envision co-op goals and values with the interests of both groups represented.

We also took steps to increase our board's connectivity with our owners because we are a board that strives for openness. Our regular monthly meetings are open to any owners interested in understanding more about the co-op, our values and objectives, and the workings of the business. As always, we invite feedback on governance-related issues.

We realize that the grocery industry is more competitive than ever. The co-op is much more than a business - we think of it as a community of interdependent stakeholders. Our collective success creates employment, promotes a healthy local economy and food system, and represents a differentiated model for shared prosperity.

As we wrap up our annual fall owner drive, we are reminded of just how essential the support of our community of owners and customers are to the success of the store and of our mission. Each time you choose to shop at the co-op, invest in ownership, or tell a friend about us, you directly contribute to a robust local economy and vibrant West End community. The Durham Co-op Market has become a community hub that nourishes the creativity and individualism of Durham's unique fabric. Our owners, staff, and customers have transformed the co-op from space into place. We are confident that our sustained outreach efforts will continue to reflect the community's distinctive character and personality every time you walk through the door.

Lastly, we'd like to give thanks to our wonderful staff who work hard every day and make the co-op a great place to shop, eat, and hang out. Together, we are creating a successful, inclusive organization that welcomes diversity and caters to our owners' needs.

Grateful for your continued ownership and support,

The DCM Board of Directors



Members of the Board (plus a few extras) passing out anniversary cake

Ends Policy

Like many other food co-ops across the county, the Durham Co-op Market uses policy governance as its governing model. In this governance style, the Board of Directors creates Ends policies to establish the goals and values of the organization, and Limitations to set boundaries. These policies are then passed to the General Manager and the staff to operationalize.

Our Ends Policy, written and adopted by the Board of Directors, reflects the intended results of the Co-op's efforts. Through the Ends policy, the Board defines our goals and values. The real power of Ends lies in its function as a delegation tool from board to the operational side of the Market. Our Ends policy provides the framework through which our co-op will prioritize its efforts, evaluate its impact, and measure its successes.

This Policy was adopted in July 2017.



The Durham Co-op Market is founded in our Cooperative Principles. We will create an open, inclusive, and diverse store that makes high-quality, nourishing food affordable and accessible for our community. We will support our local economy and local food systems while modeling environmental sustainability in our practices and products. We will foster a workplace based in dignity, opportunity, and fair compensation for every member of our cooperative family. We are the Durham Co-op Market.

The Durham Co-op Market will:

- **Create an open, inclusive, and diverse store that welcomes our community.**
- **Make high-quality, nourishing food affordable and accessible.**
- **Support the local economy and local food systems.**
- **Model environmental sustainability in our practices and products.**
- **Foster a healthy workplace based on dignity, opportunity, and fair compensation.**

It's Good to Be an Owner!

558

new owners

3754

total owners as of June 30

121

FFA owners

4669

FFA transactions this year

We are incredibly proud of our community's effort to give more people access to healthy, local, and organic food. Anyone that qualifies for SNAP benefits or other similar assistance programs is qualified to become a Food For All (FFA) owner, which is a full consumer ownership with lower up-front cost (\$15) and a discount on all our products all the time.

Supported by our Round Up at the Register program, this year our Co-op was able to raise our FFA discount from 10% to 20%. This round up program, fueled by our shoppers, has made our Food For All discount the largest in the country!

During fiscal year ending June 30, 2017, one out of five new consumer members was a FFA owner, and we collected nearly \$16,000 in register Round Up's through our collective generosity.

This year, we plan to increase Food For All ownership and participation

through intensive owner drives, outreach, and education. We want to make sure everyone in our community knows that they are welcome here, and that we want to be their store.

In addition to our "Food For All" ownership program, we are constantly striving for new ways to focus on affordability while meeting a community desire for local, organic and natural food.

Every Thursday is \$3 Dinner day at the co-op. We serve up a delicious hot meal for just three dollars. There's always a traditional and vegan option. On a regular night, we have 600 customers dining with us. Music, children's

laughter and joyful conversation fill the café and outdoor space.

The newest addition to our meal offerings is the \$5 weekday lunch special. You'll receive a quick, healthy, and delicious meal that doesn't bust your budget. These lunches were created to provide an alternative to other quick meal choices with a focus on fresh vegetables and nutritious ingredients.

The menus are creative and adventurous touching on classic favorites and international delights. With a new menu every month and vegan options available, we provide a great meal for everyone, everyday.



In the Store

CO+OP BASICS low prices for everyone every day

We believe that nourishing, high quality, and affordable food is a human right, and that's why we're so committed to sustaining and growing our Co-op Basics program.

Co+op Basics are a huge collection of organic and natural staple items at low prices for every customer, every day.

Field Day is the main brand you'll see on Co-op Basics, but we also have other local and national brands in the program.

Over the last year, we have expanded our Co-op Basics selection to involve almost every single category in the

322

items on Co+op Basics

164%

Increase over last year

store.

We want to do our best to feed you and all your loved ones the highest quality food possible, and this is one of the ways we work towards that goal.

coop™ basics



Organic beans
99¢

14,398
cans sold

Organic Rolled Oats

\$1.49

2,207
pounds sold



Homeland Creamery
1 gallon milk



\$4.99 each

3,062
jugs sold

Some outstanding

Co+op Basics Items

Local Latta's Egg Ranch 18 pk	\$2.99
Local Lindley Mills AP Flour	\$1.29
Organic Field Day Pasta	\$1.99
Organic Field Day Beans	\$.99
Organic Field Day Peanut Butter	\$3.99
Organic Rolled Oats	\$1.49
Field Day 4 pk bath tissue	\$1.99
Field Day paper towel roll	\$1.49

LOCAL VENDORS

At the Durham Co-op, we work with brands that share our values. From the source, through the supply chain and into the lives of the people like you, we do our best to ensure that each of our products move through the process in a sustainable way.

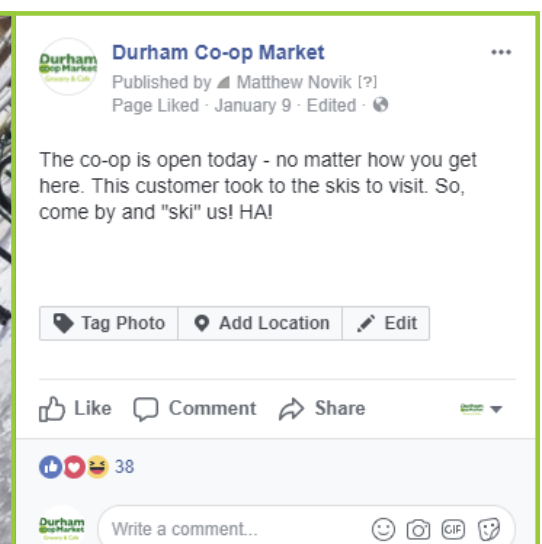
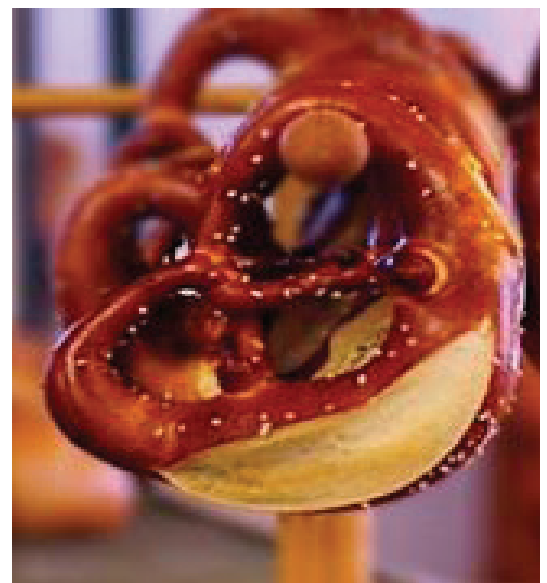
Supporting our neighborhood small-business owners is also at the heart of our mission. When a consumer supports their local business owners, they enjoy benefits that they can't possibly get from

shopping at national chains. When you buy local, significantly more of your money stays in our community. You are investing the lives of your neighbors and the health of our community.

The co-op offers products from over 200 local farms and businesses. But some of our proudest stories come from occasions when we can help a small business get off the ground.

\$1,334,602

in purchases of locally produced products



FIRST TIME RETAILERS

Here are just a few of the new local vendors that we brought into the co-op this year. Each of these small, local businesses have used the Co-op as their first retail establishment outside of their business. We feel lucky to have been able to help these operations grow and reach new markets.



"I started baking my granola at the Cookery in March of 2015, said Mary Moyer, owner and founder of Double M Bake Shop.

"I met with Davis, brought him some samples, and the Durham Co-op became my first retail customer. It was very exciting for me.

"I did several demos in the store and I am still selling lots of granola 2 1/2 years later."

Mary went on to say, "I love the community at the Co-op and was lucky to be a part of the Co-op's first year.

When I am asked what stores carry Double M Granola, Durham Co-op is the first market I mention, and I always add that they were my first customer.

Double M baked goods are crafted with love and made with the highest quality ingredients, including organic and North Carolina-grown products whenever possible.



Scratch makes real, honest, hand-crafted food. Much like us, they support and nurture relationships with local farmers and producers. and are proud to be a part of Durham, North Carolina's growing, vibrant food community.

In 2017, Scratch Baking expanded it's wholesale production and moved into the Lakewood neighborhood. In the beginning of the summer, Scratch began supplying the us with some of their bread and other baked goods.

"We have had a significant response in the extent of our brand recognition and exposure. Durham Co-op and Scratch Baking share a common mission to provide our community with access to good, clean food from local and responsible sourcing. We are proud of our collaboration."

Scratch Baking is one of several new locally owned and community focused businesses to open this summer in the West End and Lakewood neighborhoods.



Vegan Flava Cafe was birthed in 2011 by vegan husband and wife team Yah-I Tafari & Maat Amen as a mobile vendor and catering company.

At Vegan Flava, they care about what you eat. This is why they only use organic and/or non-GMO products in their great tasting food.

It was chef Yah-I's dedication to clean eating that attracted the Durham Co-op to pursuing a relationship with them.

"It was a joy and a pleasure to serve as the Guest Vegan Chef for the Durham Coop Market for so many months. The Co-op's outreach and support made for a fabulous experience. My regular customers had a place to come while we were in transition and I gained new customers through my relationship with The Durham Co-op Market.

There were many folks who changed how they ate and experienced the Coop for the first time during Vegan Flava Cafe's time there."

Co-ops Helping Co-ops

One of the Seven Cooperative Principles is "Cooperation among Cooperatives." This principle highlights the importance of Co-ops helping one another and working in collaboration towards our shared goals.

DCM receives help and guidance from our co-op network, and we offer help and guidance whenever we are asked.

This year, our General Manager and Operations Manager went to Tidal Creek Food Co-op in Wilmington, which had been steadily losing sales to near-by competitors. Together with a team of staff from other co-ops around the Southeast, we offered feedback and recommendations about the condition of the store. Based on the feedback, Tidal Creek has made significant improvements, and returned to profitability.

Our General Manager, Operations Manager, and Grocery Manager went to Company Shops Market Co-op in Burlington to help them reset and reorganize their grocery, frozen, and dairy departments to make them more customer friendly and to highlight their best selling products.

We also offered them advice about how to build beautiful and impactful displays to drive sales.

Diamond Riley, our Front End Manager went to Lexington Co-op (Buffalo, NY,) and learned about their cash management procedures, which have assisted us in bettering our cash handling and management at DCM. Diamond also brought back some great ideas about staff training.

Our Wellness Manager also went to Lexington Co-op later in the year and helped them set up and open a new store.

Our General Manager and Operations Manager were recently invited to Renaissance Community Co-op in Greensboro to offer them advice on how to tailor their product selection to their customers and merchandise their products in the most inviting way possible.

Our IT Coordinator, General Manager, and Operations Manager



stronger together

traveled to Three Rivers Market in Knoxville, TN, to learn about the impressive things they do with their Point of Sale software, and we have implemented several new ordering systems in our Grocery Department using the knowledge we gained in Tennessee.

We also have a strong partnership with Weaver Street Market in Hillsborough and benefit greatly from our relationships with fellow co-ops both statewide and nationally. The National Co-op Grocers motto is "Stronger Together" and we always seek to embody that mentality at DCM.



Co-ops Helping Co-ops



National Co+op Grocers (NCG) is a business services cooperative for retail food co-ops located throughout the United States. They represent 148 food co-ops operating over 200 stores in 37 states. NCG helps unify natural food co-ops in order to optimize operational and marketing resources, strengthen purchasing power, and offer more value to natural food co-op owners and shoppers everywhere. We are proud members of the National Co-op Grocers. Below, you will find an excerpt from the National Co-op Grocers' 2016 Impact Report that outlines just how awesome they are!

Promoting co-op values

Most food co-ops were formed by people committed to co-ops as well as core values like a sustainable food system, the fair treatment of people and a healthy environment; values that continue to be important to NCG, our co-ops and their shoppers and owners. Through NCG, co-ops have been able to make far greater progress towards these goals, at home and abroad, than could ever have been done alone. In 2016, NCG contributed over \$690,000 and considerable staff time to support advocacy work, including:

- We renewed our commitment to Food Co-op Initiative to support faster and more efficient start-ups
- We made commitments to sustainable development and diversity through the Co-ops for 2030 campaign and the B Corp Inclusion Challenge
- We became a founding member of the Climate Collaborative, an initiative to reduce climate impact, and announced the NCG Climate Collaborative Awards
- We were a major contributor to the Future Organic Farmer Grant Fund, impacting 14,000 students
- We were awarded “Organic Champion” by California Certified Organic Farmers (CCOF)
- We facilitated \$1 million in sales for La Riojana farmer co-op and raised \$80K for more organic certification
- Co+op Forest now supports 1.4 million trees
- Over half of items promoted in Co+op Deals were organic; generating \$47 million in sales

“Working together, co-ops are writing the next chapter of our shared story—we are making a positive impact on a national and global scale. We are stronger together and we are just getting started!”

—Robynn Shrader, NCG Chief Executive Officer

Staff & the Workplace

NEW MANAGERS

There are always new and exciting changes happening at the co-op. Whether it be a new grocery product, a new lunch menu or new local vendor, we are always excited to introduce you to these changes. This year we have welcomed some new department managers and we feel lucky to have each of them joining our team. In true Durham fashion, let's learn more about these managers' unique skills as we explore three interesting tidbits about them that you might not guess by looking at them.



Germane James, Marketing Manager

Germane is originally from New Jersey and has been in Durham for nearly a decade. She has had a ten year career working in the nonprofit sector as a marketing and fundraising professional. You might not guess that Germane considers herself to be a Top Chef level cook, DJs on the weekends and knits in her spare time. Germane is looking forward to championing the co-op's passion for quality, local and sustainable foods while building lasting relationships with our neighbors, community and owners. Germane has a knack for relationship building and has never met a stranger. She is using that outgoing nature to partner with local faith communities, community centers and area nonprofits to improve the effectiveness of the West End Neighborhood. Some of Germane's goals in her new position are to increase the number of neighbors who take advantage of the ownership opportunities while stressing the benefits of ownership to those within a mile radius of the store. She will also focus on spreading the co-op love to all of Durham by honing in on some media relationships and encouraging

press coverage of all of our great events and deals. Next time you are in the store, introduce yourself to Germane and make an instant new friend!

Kate Schumacher, Produce and Meat Department Manager

Kate joins the Durham Co-op Market with tons of previous co-op experience. They have worked at both the Deep Roots Market and Renaissance Community Co-op in Greensboro, NC. Kate loves working with local farmers and talking to co-op shoppers about where their food comes from. Kate enjoys that the produce section is ever-changing and constantly keeps Kate moving. Their goals in the produce and meat departments is to continue to entice our customers with fresh samples throughout the department and improve the experience of those who like to snack while doing their regular shopping. Kate has also created a convenient grab and go area for cut fruit and veggies. To prevent food waste, Kate facilitates a process for sharing older produce with community members that use the vegetables for feeding their pets and animal friends... we're talking rabbits, urban chickens and a 150 pound tortoise! Believe it or not, Kate LOVES all vegetables which makes them a great produce manager. However, don't even think about giving them an eggplant! Kate is marvelous at Harry Potter trivia and enjoys a good Sunday night football event. Kate is invested in fresh and would love to share some of their favorite recipes, tips or tidbits with you about our meat and produce selection.



NEW MANAGERS

Our staff is made up of 60 part-time and full-time employees. We are so proud that our team reflects our Durham community; over half of our staff live within a mile of the store. We prioritize staff development, cross training between departments, and promoting from within in order to create an upwardly mobile and educated staff across all departments.

We also strongly value customer service, and train all of our staff to be as friendly and helpful as possible. Please ask anyone with a name tag for help or what their favorite product is!



Matt Colley, Kitchen and Deli Manager

Matt comes to the co-op with extensive food service experience, including over 15 years as a kitchen manager. His passion for focusing on fresh and nutritious ingredients, cleanliness and organization makes him such a great fit for the co-op and its mission. Matt is looking forward to increasing our consistency, freshness, and customer service. As the kitchen and deli manager his goals are to increase and diversify the products offered on the salad bar, utilizing all of the fabulous local produce that we receive daily. Matt's creativity and love for cooking has made a tremendous impact on lunch options on and off of the hot bar. Our grab and go section is always fully stocked and fresh and the \$5 weekday lunch special is a major hit! Unless you knew Matt in his previous life, you might not guess that he was once a very talented tattoo artist and you can consider him a walking advertisement with over 22 tattoos! Matt is also a rockin' drummer and misses his days drumming in a band, back in the day. Be sure to swing by the deli and let Matt serve you up something fresh and delicious!

Jean Hecker, Grocery Manager

Originally from Virginia, Jean moved to Durham some time ago and began working at DCM shortly after the store opened. She has a wide variety of work experience, including managing the wellness department at Whole Foods and trying multiple jobs here at the co-op. Jean has had a positive impact at the store and recently took responsibility as Grocery Manager. Jean believes that she leads the best staff in the store, full of energetic and helpful folks that are ready to help a customer or fellow staff person no matter what. Jean's goals in the grocery department include, continuing to identify and stock local products as well as being responsive to the specific needs and requests of our community. Jean has a flair for great design and puts that into practice on our ends caps during each sale change over. When she's not running the department, Jean spends her time pursuing her interests in Mycology and dogs. If you couldn't guess, Jean loves a good scary movie while cuddling with her pup and enjoying whipping up some yummy treats in the kitchen. Next time you visit the store, be sure to check out the wide variety of local and unique products that Jean has in the grocery department.



DIVERSITY & EQUITY ON STAFF

Last year we told you about our ongoing equity project and the work we were doing with Open Source Leadership. We wanted to update you on the work we've done with three key points of feedback we received from a staff survey, which recommended we focus on:

BUILDING UP OUR CULTURAL COMPETENCY

Our management team went on a day long retreat with folks from Open Source Leadership and learned about societal systems of power and oppression, micro-aggressions, and how our identities dictate the treatment and opportunities we receive in the world – both socially and professionally.

Later in the year, a group of staff from across the store went to an anti-oppression/anti-racism workshop. These workshops gave us a fuller, more cohesive understanding of the inequitable systems we seek to disrupt in our workplace and allowed us to further develop the shared language we use to talk about those systems of inequity.

We recognize that staff come to us from innumerable different backgrounds and identities, and it is our responsibility as an employer to provide individuals with the specific tools and support they need to thrive in their job roles.

INCREASING COMMUNICATION AND ENGAGEMENT

Our Open Book Management (OBM) meetings have really helped us increase communication and engagement about store information and decision making to all staff.

OBM has also assisted in bringing us to a place of increased and improved transparency over the last year—as it turns out, weekly meetings where all staff is invited and encouraged to participate will do that!

We continue to put out a weekly all staff newsletter called the CODY (Codependent Weekly) in every employee work space with notes from our OBM meetings for folks who couldn't attend, reminders about upcoming store events and news, and information about new products and programs.

In addition to these efforts, we make sure to maintain an open door policy in our organization, meaning everyone's door is open at all times for feedback, suggestions, and conversation about the co-op as a place of work and a business.

BUILDING EQUITABLE POLICIES

Our training badge program is still in full effect and maturing to be clearer and more accessible.

We have now worked with every member of staff in small groups to make training maps for each department. These maps outline all the knowledge staff needs to excel in their respective departments.

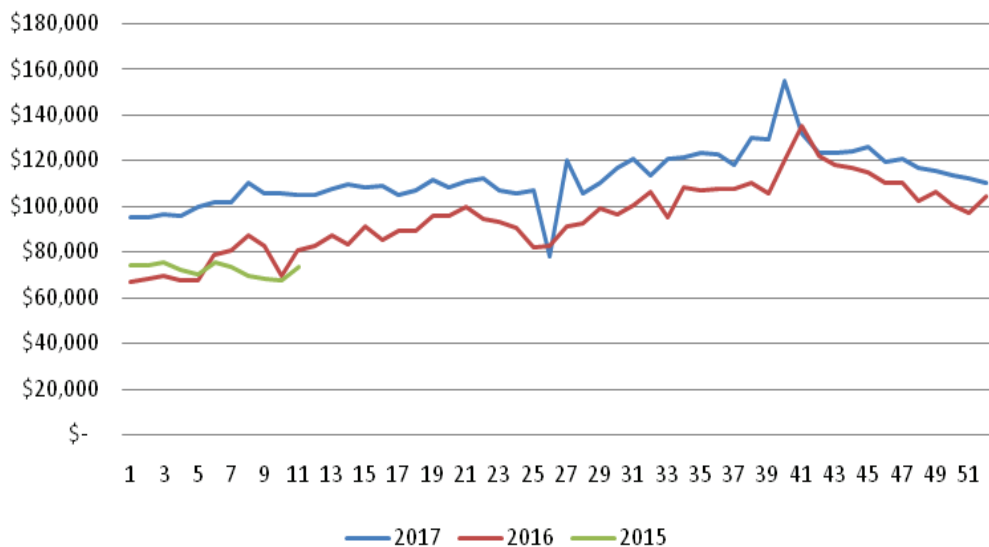
Staff in each department are required to earn every basic training badge so we can accurately track and evaluate the knowledge each person gains and associate it with relevant pay/responsibility increases and/or promotions.

We are also in the process of reviewing our Employee Handbook through an equity lens, making certain that every policy we have is as equitable and inclusive as possible. We want our policies and procedures to provide real-life, realistic solutions and guidance for our staff.



Financial Report

Weekly Sales



As reported in last year's annual report, we used our success in the first year to fund 2017 personnel development (OBM, equity training, departmental skills development) as well as investments in automated inventory, lighting, and increased cooler space for beverages and Grab and Go in the café.

We were also able to pay off community investment loans that were due and refinance our equipment loan for a lower interest rate, thus reducing current interest expense. We continue to have positive EBITDA and continue to project to have consumer and worker dividends achievable sooner than the originally projected five year mark.

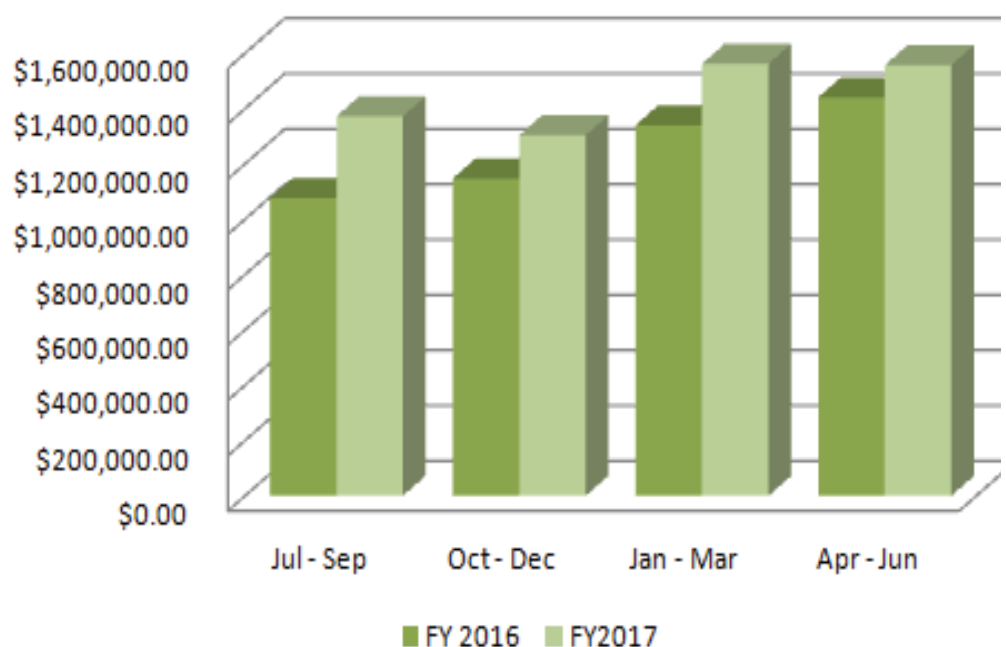
It has been quite a ride so far and we don't expect to slow down any time soon. Thanks for continuing to be the community that supports local enterprise and ownership and to make this world a better place literally one can of beans at a time.

We had another great year in terms of sales and sales growth. After the tremendous week over week growth of the first year, it was admittedly difficult to remind staff used to occasional 40% sales growth that 18% average total store sales growth in Year Two was extraordinary in this highly competitive natural food retail climate.

The finance department shares information on sales, purchases and labor to all staff through Open Book Management meetings (the weekly "Bullpen") and it is rewarding to see all levels of staff engage with the intricacies of budgets and forecasts. This year, we are projecting 11-12% growth over last year.

We are also working to raise our productivity and reduce unnecessary labor hours and product waste. We plan to accomplish this through current store-wide focus on well-honed systems of inventory, cash management, purchasing, scheduling, marketing and financial reporting.

Comparative Sales by quarter



BALANCE SHEET
June 30, 2017*

ASSETS

Current Assets

Cash and cash equivalents	559,094
Accounts Receivable	21,246
Grocery Inventory	83,403
Deli Inventory	22,270
Produce/Meat Inventory	23,215
Beer/Wine Inventory	43,452
Wellness Inventory	84,966
Other Current Assets	8,460
Total Current Assets	846,105

Leasehold Improvements	127,166
Furniture and Equipment	649,114
Accumulated Depreciation	(248,712)
Total Fixed Assets	527,568
Total Other Assets	120,425
TOTAL ASSETS	1,494,099

LIABILITIES & EQUITY

Liabilities

Total Current Liabilities	241,966
Total Long Term Liabilities	610,817
Total Liabilities	852,783
Total Equity	641,316
TOTAL LIABILITIES & EQUITY	1,494,099

Current Ratio = 3.50
Debt/Equity = 1.33

* Modified accrual basis. This balance sheet presentation excludes lease liability, leasehold improvements, and reduction in retained earnings related the lease agreement with Self-Help Credit Union. Management believes this to be a more accurate depiction of our current financial position.

Durham Central Market, Inc.

Income Summary

For the years ended June 30, 2017 and 2016 respectively

	2017	2016
Total Sales	5,795,429	4,977,645
Total Member Discounts / Other Income	65,787	72,775
Total Income	5,861,216	5,054,866
Cost of Goods Sold	3,913,119	3,397,139
Gross Profit	1,948,098	1,657,727
Expenses		
Personnel Expenses	1,296,105	1,034,356
Other Operations Expenses	591,638	413,620
Total Operating Expense	1,887,743	1,558,169
Net Ordinary Income	60,355	99,558
Other Income/Expense		
Depreciation Expense	111,582	110,193
Interest Expense	46,930	80,219
Taxes	3,391	2,582
Net Income	(101,547)	(93,436)