



Ashland Food Cooperative

2008 Annual Report

Message from the Board of Directors

by Gwyneth Bowman, President

Our Board of Directors is the ultimate decision-making body for AFC. We are accountable to you, our owners! In a democratic process you elect your directors to provide overall direction for your cooperative.

It is very important that we hear your thoughts and ideas. We rely on your proactive involvement and feedback. In response to your ideas we have made significant progress in our sustainability. A group of owners, who attended a board meeting, proposed eliminating plastic and paper carry out bags. What a difference this has made in our Co-op! We have reduced the use of paper bags by a whopping 75%. Not only that, money saved has been used to reduce the cost of our canvas bags. This is a wonderful example of a win-win proposal from our owners!

You also proposed making our Annual Meeting a Zero Waste event. Working with you as partners we got much closer to that difficult goal. Thanks to all of you who brought your own meal service and helped with this recycling event! Last year's event featured a nationally recognized speaker as well. Debra Kane, Vice President of Food & Farms for Ecotrust, spoke to owners about the growing trend of linking local farmers with school cafeterias, an effort AFC supported in Ashland's schools last year.

Our owner-linkage has been positive, as you have given us feedback on subjects of

interest for our free Monday night lectures and Community Oven cooking classes. These events filled to capacity due to your enthusiasm. Not only have owners benefited, the media has also discovered what we are doing and published many powerful articles to inform our community about our cooperative ideals and events!

A special thanks goes to all of you who joined us for Dinner with the Directors. We listened to you and garnered great information to better serve you in the future. If you haven't attended one yet, try again in 2009. I guarantee great food and spirited conversation!

2008 was a dynamic year! The Basic Pricing program and the diligence of our Management Team and Employees helped you during challenging times. They "walk the talk" of customer service and continue to make an extreme effort to assist you with your shopping experience. We truly are one of the most successful Co-ops in the nation! This only happens when everyone on our team — Owners, Management, Employees, and our Board work together to accomplish our Co-op Mission and Vision.



We have reduced the use of paper bags by a whopping 75%!

Report from the General Manager

by Richard Katz

Despite ending in a recession, 2008 was a good year in many ways for Ashland Food Co-op. Sales rose modestly last year at a 5% growth rate, about the same as inflation in our sector. We were faced more and more with a crowded facility and limited parking as we continued to be the destination organic food store for many people in Southern Oregon and Northern California. One of our most pressing strategic priorities has been to "dedicate resources to serve and satisfy our growing customer base within reasonable risk." Besides the idea of somehow purchasing the Umpqua Bank property, we also focused on acquiring other adjacent property. We purchased the "Pioneer Street Property" next to our delivery area from former Board President Erik Wallbank. The property consists of two medical office buildings; the larger one fronts Pioneer Street and the smaller is behind it next to our staff parking lot. While this addition will not create more retail space or convenient customer parking, it will provide a bit more office space, a few more parking spaces, and a future home for our Community Classroom, which is now in the Plexis building on A Street. We were fortunate to be able to pay cash for this property and we currently receive rental income from the larger building. (See Guy Nutter's related article).

(continued on back page)



Report from the Board Treasurer

by Guy Nutter

How is our Co-op doing? The answer is — **great!**

Pioneer Property Purchase

In my report last year you may recall that I spoke of the Board of Directors retaining part of the patronage refund to enable AFC to be in a position to take advantage of any opportunities. An opportunity did arise and the big financial news this year is that AFC purchased the property and two buildings next to our loading dock. The “Pioneer Street Property” will eventually house our administrative staff, Outreach staff and our Community Classroom.

Even better news, from my perspective as the Board Treasurer and Finance Committee Chairperson, is that we were able to make that \$789,000 purchase without going into debt! We could do that because the current and prior Board of Directors retained a portion of prior years’ patronage refunds to take advantage of just such financial opportunities. We were doubly fortunate in being able to rent out these buildings until we need to occupy

them and realize a favorable return on the money we spent purchasing the property.

Sales

Our sales exceeded \$21,800,000 for 2008, again an especially significant figure when we consider the size of our community. That is a 1.1 million-dollar increase from 2007 and an almost 3 million dollar increase from 2006. Those sales figures are the envy of many co-ops in larger metropolitan areas and represent the commitment of our owners to AFC and our cooperative principles.

Owner Benefits

Our Up Front Benefits (the \$5 & 10% coupons we receive with our bimonthly newsletters), together with coupon booklets and our Basic Pricing program, continue to be among the best kept secrets in town. It does seem though that word is getting out as our owner numbers grew from 5,278 to 5,987. If you, as an owner, spent approximately \$3,000 at the Co-op, you realized Up Front Benefits totaling approximately \$52 last year in comparison

to \$51 in 2007 and \$49 in 2006.

Patronage Refund Retained

With the purchase of the Pioneer Street Property, the acquisition of a new POS (Point of Sale) computer checkout system and conveyor-belt check stands, and the approximately \$200,000 beautiful remodel of our deli, the Board of Directors voted to retain 50% of the patronage refund to replenish the monies it holds for future development and opportunities, as well as to strengthen our financial position. Therefore, of the \$392,924 Patronage Refund declared by the Board of Directors, 50% will be distributed to owners.

An owner who made annual purchases of \$3,000 in 2008 can expect to receive \$39 in a patronage refund check. Those owners who spent more than \$3,000 can expect a larger check.

Thank You

Thanks to our manager, our staff, and to you, our owners, for once again enabling me to report that AFC is doing “**great.**”

2008 Financial Report to Owners

Presented by Christina Oliver, Financial Manager

After five years as a cooperative, Ashland Food Co-op had almost 6,000 owners and 70.2% of its sales to owners. This percentage continues to rise as customers realize the many benefits of becoming a Co-op owner, not the least of which is the annual patronage refund check, which you should receive in the mail very soon if you haven’t gotten it already.

As you can see from our income statement, total sales before discounts for 2008 were \$21,826,055; up 5.3% over 2007, which is pretty good for anyone in the retail grocery business, but is even better when you consider the recent economic

climate. You may remember that we had a large project early in 2008 when we got a new point-of-sale system, and installed

the conveyor belt check stands. Later that year, we acquired the property adjacent to us with two buildings on Pioneer Street.

WHERE DID THE MONEY GO IN 2008?



Since we funded all this without using any debt, the result on our financial statements was an increase in expenses on the income statement, and on our balance sheet there was an increase in fixed assets, and a decrease in current assets.

The total patronage refund amount for 2008 was \$392,924, which is 2.6% of about \$15 million in sales to owners. Our CPAs calculated this amount to be the maximum patronage refund allocation allowed by the IRS, and it's slightly lower than last year because our overall profit was lower. Since the Board has decided to retain 50% of this patronage refund allocation for future capital needs, 50% will be the actual amount distributed. Owners will receive a check for approximately 1.3% of their purchases.

Even though Ashland Food Cooperative had a relatively good year, we

In an effort to help our customers on a tight budget who are trying to continue eating a healthy diet, we are lowering our target margins in several departments including Supplements, Bulk, and Produce.

know that times are tough all around. In an effort to help our customers on a tight budget who are trying to continue eating a healthy diet, we are lowering our target margins in several departments including Sup-

plements, Bulk, and Produce. These lower prices may not even be marked because they are not temporary sales; they are everyday price reductions. If you think you know where the Co-op stands in the price competition in the retail grocery sector in Ashland, I challenge you to check again!

We're all trying to get more out of each dollar these days, and that makes each customer's decision to shop at the Co-op even more meaningful. We strive every day to make your shopping experience here above and beyond your expectations. We humbly thank you for your support and patronage, and hope to see you here again soon!

ASHLAND FOOD COOPERATIVE

COMPARATIVE BALANCE SHEET

	12/31/07	12/31/06
ASSETS		
Cash	586,336	525,140
Cash Equivalents	99,866	594,675
Short-term Investments	720,002	595,000
Current Assets (excl. Inventory & Cash)	180,143	187,426
Inventory	580,034	488,559
Total Current Assets	2,166,381	2,390,800
Long-term Investments	109,148	105,257
Fixed Assets	2,765,714	2,025,671
Total Assets	5,041,243	4,521,728
LIABILITIES & EQUITY		
Accounts Payable	437,691	345,223
Patronage Refund Payable	196,462	259,465
Current Liabilities (excl. Accounts Payable)	679,660	646,019
Total Current Liabilities	1,313,813	1,250,707
Long-term Liabilities	192,000	96,942
Total Liabilities	1,505,813	1,347,649
Retained Patronage Refund	709,015	512,552
Retained Earnings	2,148,969	1,945,165
Equity (excl. Retained Earnings & Net Income)	581,440	512,554
Net Income	96,006	203,809
Total Equity	3,535,430	3,174,080
Total Liabilities & Equity	5,041,243	4,521,729

ASHLAND FOOD COOPERATIVE

INCOME STATEMENT

	2008	%	2007	%
Sales	21,826,055	100.00%	20,719,917	100.00%
Cost of goods sold	14,390,216	65.93%	13,669,852	65.97%
Gross Margin	7,435,839	34.07%	7,050,065	34.03%
Operating Expenses				
Wages & Benefits	4,994,396	22.88%	4,662,336	22.50%
Profit-sharing	109,130	0.50%	103,600	0.50%
Occupancy	274,815	1.26%	302,421	1.46%
Depreciation	187,349	0.86%	151,037	0.73%
Operating	458,947	2.10%	454,827	2.20%
Administrative	242,229	1.11%	169,106	0.82%
Governance	87,998	0.40%	78,003	0.38%
Member Sales Discounts	282,803	1.30%	255,811	1.23%
Promotional	219,124	1.00%	194,562	0.94%
Other expenses (income)	(61,058)	(2.80%)	(51,443)	(0.25%)
Income before PR and taxes	640,106	2.93%	729,805	3.52%
Patronage Refund	392,924	1.80%	432,441	2.09%
Taxable Income	247,182	1.13%	297,364	1.43%
Income Tax Expense	151,176	0.69%	93,555	0.45%
Net Income	96,006	0.44%	203,809	0.98%

Annual Social Responsibility Report

by Elaine Deckelman, Health and Beauty Aids Department Manager and Sustainability Committee Chair

“Natural Steps” Toward a More Sustainable Ashland Food Co-op

It is exciting to work at the Co-op during this

time of renewed passion and commitment to the environment and our community, and to inspire you too, to come up with ideas to help your Co-op be the leader in all things green and socially responsible. This

was the year we took our first steps toward joining the Food Trade Sustainability Leadership Association (FTSLA). This organization is composed of food businesses committed to organic food and sustainability, and includes several of our key distributors, manufacturers, and sister co-ops. These leading organic food businesses share a vision for the organic sector to lead the way in the transition toward a sustainable food system by demonstrating successful sustainable business models. Part of joining FTSLA includes using The Natural Step (TNS), a framework for sustainability that is derived from natural science. Developed in Sweden by Dr. Karl-Henrik Robert in 1989, the framework's foundation is in the Four System Conditions. While these are written to be clear scientifically, the specific wording can be confusing. However they can be reworded as basic sustainability principles that provide guidance for any organization interested in moving towards sustainability.

To gain a greater understanding of TNS the entire management team, board, and social responsibility committee participated in a full day workshop in September 2008. Next, all staff members

attended one of seven two-hour workshops. An in-store Sustainability Committee with four managers and six staff members was then created. The charge

of this committee is to implement TNS, visioning the future and how to get there in the years to come. Although our business was built on sustainability, we seem to have strayed a bit from this earlier

Providing a Work Environment that Fosters Mutual Respect and Cooperation

We offer our employees a wage and benefit package that is remarkable for the grocery industry. Those who work 25 hours or more receive health insurance and other benefits after three months of satisfactory employment. There is no difference between the benefit package offered management and hourly workers, and our top to bottom ratio (of highest to lowest wages) is less than five to one.

None of us are getting rich working at the co-op, but everyone is treated fairly and has a chance to share in the store's prosperity and success. After a year, employees are eligible for quarterly productivity bonuses, and an annual profit sharing bonus.

It takes more than money to create a joyful workforce. It also takes an atmosphere of dignity and respect, as well as a shared sense of mission. This subjective quality is harder to measure than wages and benefits. Our non-management staff have their own democratically elected body, the Staff Council who participate in management team meetings to represent staff interests, and also act as advocates for staff when called upon to do so. The Board of Directors includes a staff member who is elected by the staff who are owners.

The Four System Conditions...

In a sustainable society, nature is not subject to systematically increasing:

1. concentrations of substances extracted from the earth's crust
2. concentrations of substances produced by society
3. degradation by physical means
4. and, in that society, people are not subject to conditions that systemically undermine their capacity to meet their needs

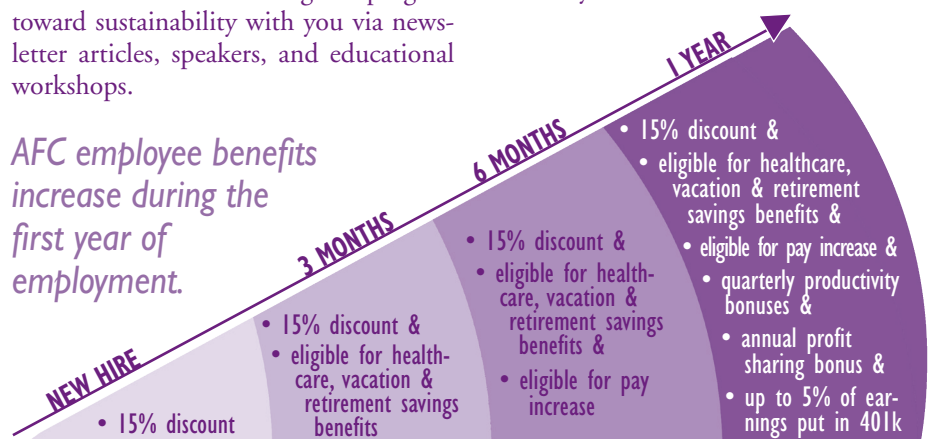
...Reworded as The Four Principles of Sustainability

To become a sustainable society we must...

1. eliminate our contribution to the progressive buildup of substances extracted from the Earth's crust (for example, heavy metals and fossil fuels)
2. eliminate our contribution to the progressive buildup of chemicals and compounds produced by society (for example, dioxins, PCBs, and DDT)
3. eliminate our contribution to the progressive physical degradation and destruction of nature and natural processes (for example, over harvesting forests and paving over critical wildlife habitat)
4. and eliminate our contribution to conditions that undermine people's capacity to meet their basic human needs (for example, unsafe working conditions and not enough pay to live on).

model. Now, with TNS, we have repurposed our commitment to look at our environmental impact as frankly and fairly as we can, and to improve over time. We look forward to sharing our progress toward sustainability with you via newsletter articles, speakers, and educational workshops.

AFC employee benefits increase during the first year of employment.





Continued Service and Outreach to Our Owners and Community

A Full Selection of Natural Foods that Emphasizes Locally Produced, Organically Grown, and Ecologically Sound Products



Our commitment to buying local is an ongoing process. We are working on metrics that tell us exactly how many of our products are local, as well as organic. Store buyers give preference to local products by giving them shelf space and a lower markup.

Our 2009 customer survey shows that there is a high level of customer satisfaction with our product selection, our customer service, store cleanliness, and layout. Our slower but solid sales growth during the recession is another tangible indicator of customer satisfaction. Our

biggest challenges continue to be our price image and parking.

In keeping with our Co-op Mission Statement, we offer a variety of products at basic prices. Most of our best selling 200 items are part of Basic Pricing. We take a considerably lower margin on these items to keep them affordable, and about ten percent of our total sales are basic pricing items. Our free-to-owners, Pantry Basics class is offered six times a year to demonstrate how to create weekly menus using the Basic Pricing foods. It consistently filled during 2008, with a significant wait list for each class.

We greatly expanded our demo program in 2008. Both active and passive demos were offered daily at the Culinary Kiosk and at the new supplements demo counter. We introduced our new Bud-

“Please strive to keep prices low. Times are tough. Thanks.”

get Solutions demos at the Culinary Kiosk on Tuesdays, Thursdays and Saturdays at 4pm which provide recipes to feed four for \$10 or less. During these hard times, we are committed to supporting our shoppers with affordable meal ideas that use Basic Pricing foods.

Educate Educate Educate: It's Our Way of Extending Customer Service



The Community Oven Cooking Class program offered 58 classes featuring a range of topics to inspire and inform in an entertaining format. In addition to the usual 2½ hour classes, we created the Small Bites one-hour sampling class series that is less expensive and focuses on a single food topic. The class offerings included two very popular week-long Summer Camps for Young Chefs.

The 44 Free Monday Night Lectures gave local health practitioners a forum to discuss health-related topics, and our *More Than Food* newsletter featured 32 articles on health and nutrition.

Besides store tours, the Outreach Team provided a number of exceptional classes for local school groups. Sustainable topics were tailored to coordinate with current

“Thanks for giving my class a deeper understanding of why buying bulk foods is more than saving money. We are studying the ‘triple bottom line’ concept of business practice, and you provided the perfect real life example of how this works.”

—Tim Brandy,
John Muir School

school lessons. The Co-op continues to support the Ashland School District as it moves toward a food service program with more locally grown and sourced food. During the months of November and December, the Co-op's Deli served some of the same recipes that were available in school cafeterias. All recipes featured locally grown produce. A grant for new kitchen equipment was awarded to the district's pilot program at Walker Elementary.



“My daughter has enjoyed the cooking classes as have I. This is one of the best things about the Co-op.”

Our basic flavors.



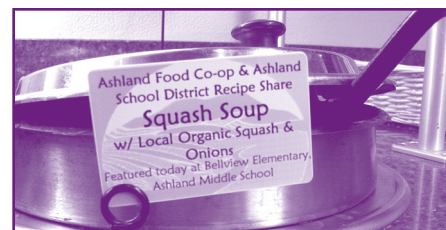
Fresh, local, healthy food doesn't have to cost you an arm and a leg. As a consumer-owned grocery cooperative, we provide the best, most wholesome and affordable foods through our Basic Pricing program. Come to the Co-op to experience the Rogue Valley's basic flavors! For a list of Basic Pricing items and our Budget Solutions recipes visit our website. www.ashlandfood.coop

...visit the Co-op today!

Ashland Food Cooperative

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“I appreciate the Basic Pricing and feel that it is those prices that led me from a 50% shopper at another local store, to an almost entirely Co-op shopper.”



Special Events: A Time to Meet over Good Local Food

In 2008 we rented a bus and took 30 owners on a memorable farm tour in the Applegate-Williams area. It was so successful that we plan to create two bus tours for 2009. Our third annual Fall Harvest Festival showcased great music, an apple tasting, pumpkin carving, plus sausages and beer tasting.



"I love the Co-op! It is truly a community center."

Giving Back to the Community

We continued our sponsorship of local community events like Earth Day, Ashland Independent Film Festival, and THRIVE's Eat Local Challenge Week.

Our \$35,239 distribution of Community Grants was awarded to small local organizations that fit our mission in some way. We also donated \$2,975 of food to local non-profits. Employees contributed \$560 to Earthshare through a voluntary payroll deduction. Ashland Schools Foundation received \$359 through our Scan 4 Our Schools program.

The Co-op received a Hometown Hero Award from ACCESS, Inc. for our

10-year support of their Scan Against Hunger program. This year's contributions totaled \$3,941 from generous Co-op owners who scanned their donations at the check stand. During November 2008, Co-op owners and shoppers purchased 8,000 pounds of Smart Chicken. The company then donated 1,370 pounds, a percentage of the total chicken purchased, to ACCESS.

People will remember 2008 for a long time for all kinds of reasons — Obama's election, the financial meltdown, and never ending war and chaos in the world. For us at the Co-op, we'll always remember it as the year we took our first steps toward returning to more sustainable business practices by joining the Food Trade Sustainability Leadership Association and learning about The Natural Step. Our newly formed Sustainability Committee will continue refining our vision and goals during the year to come. We will keep on finding ways to provide more affordable, organic, local food, and present educational programs that support holistic nutrition and economical meal planning. Thanks to all of you for your support in a transitional time.

Note: The quotes in this section of the Annual Report are from the recently completed Customer Survey.

"Ashland Food Co-op, thank you for being here for us and thank you for wanting to improve and grow and learn. May abundance in every measure possible continue and may it inspire your Good Works."

GM Report (cont. from page 1)

Another effort to be more efficient in serving our growing customer base was to install a new POS (Point of Sale) cash register system and new check stands. This Catapult system is more robust and versatile, and the conveyor equipped stands make it faster and easier for cashiers to get customers through checkout. We can better track owner purchases and might someday convert to electronic coupons and discounts for owners instead of the paper coupons that come in your newsletter. A central strategic priority for AFC is "to listen to and anticipate our owners' needs and inform them of our plans and progress." We improved our ability to communicate with you by launching a new website. Out of nearly 6,000 owner households, we have email addresses for more than 4,000 — so we know many of you have access to the information and resources on our website including sales flyers, newsletters, a calendar of events, cooking class registration, downloadable forms, board minutes and news, and a blog. Plus, we have posted all of our Meal Solutions and Budget Solutions recipes from demos at the Culinary Kiosk.

In listening to owners last year we heard the call charge for paper and plastic bags at checkout to raise awareness about the large use of resources going to disposable bags. After months of fear and debate, plus a bag survey, AFC began the "Year of the Bag" by charging 10¢ for bags at checkout. The vast majority of shoppers understood our intention and either purchased disposable bags or bought reusable bags at cost. Bag use plummeted and the "bag charge" proved to be the opening thrust in our recommitment to sustainability. We have always focused on being a socially responsible business, which includes sustainability. In 2008 we added a strategic priority, "Leader in Social Responsibility" which included implementing a formal Board Social Responsibility Committee, adding new sustainability metrics, and increasing education and awareness on sustainable practices. All of these are in process and we have trained our entire staff in The Natural Step, a sustainability framework. (See Social Responsibility section for more)

I believe that 2009, especially with the economic downturn will be a year that we get back to basics in terms of reducing waste and conserving energy and begin to envision a way to live more lightly.



Co-op managers and board receive Hometown Hero award.