



# Annual Report

## Annual REPORT FROM THE BOARD

by Joe Golton, Board Treasurer

**No matter how you look at it,** 2003 was a great year for the Ashland Food Co-op (AFC). In our first year as a member owned consumer cooperative, we generated record sales and income, signed up over 2000 owner/members, improved our financial policies, distributed generous owner/member benefits, and continued to sell product at lower prices than most other food co-ops. Christina's financial review covers the financial statements and owner/membership figures, so I will devote the rest of this article to expanding on the other points I just mentioned.

### IMPROVED FINANCIAL POLICIES

In last year's May/June newsletter, I wrote, "I hope, with my fellow board owner/members, to put in place policies and directives that will ensure the long-term financial health of the Co-op for many decades to come." I am pleased to report several policies developed by the finance committee and the board that should support this goal:

1) A substantial portion of compensation for management and staff is variable, depending on store productivity

and profitability. Some of these policies were modified this year to increase the portion of compensation that is variable.

2) A new policy calls for working capital to remain below \$500,000. With this policy, if current trends continue, AFC will pay down all of its long-term debt by 2007. AFC paid \$252,850 of principal beyond the minimum required for 2003, thanks in large part to owner/member equity investments totaling \$154,650.

3) We're retaining a portion of patronage refunds each year in order to more quickly pay down debt and to save for the possibility of a large project in the future to accommodate growing demand.

4) In reviewing our policies, we noticed that the current senior discount results in small losses to the co-op for all purchases by seniors. We are looking at changing this policy to avoid this loss and better follow the co-op principle of "earnings being equitably applied to the benefit of owners in proportion to their patronage."

### GENEROUS OWNER/MEMBER BENEFITS

Now that we have completed our first year as a co-op, I think it is worth reviewing the cash benefits the average owner/member received. As most of you know, becoming an owner/member requires a \$100 equity investment, which can be in one lump or spread out over 2 years with five \$20 payments. In 2003, the average owner/member who joined in early January of 2003 purchased about \$3100 of groceries at AFC, with about \$120 of these groceries purchased on owner appreciation days, and 7.6 of 12

coupons were redeemed for the following benefits:

- \$38 From 7.6 redeemed \$5 coupons
- \$12 From receiving 10% off on owner appreciation days
- \$1 From other benefits (coupon booklets and class discounts)
- \$33 Patronage refund check from 90% of 1.17% applied to \$3100 purchases**
- \$84 Total Owner/member benefits

That's a total 2003 cash benefit of \$84 from a one-time, refundable investment of \$100. Of course, owner/members who spent more than \$3,100 and redeemed more than 7.6 of their coupons received greater cash benefits. If you know any regular co-op shoppers who have not yet become owner/members, please show them this article!

In addition to these direct benefits, there are indirect benefits of making the co-op financially stronger with the \$100 equity investment and a portion of the patronage refund retained each year. For the year 2003, AFC distributed 90% of the patronage refund [in cash] while retaining 10%. The small amounts retained from thousands of owner/members add up to substantial sums that can be used to pay down debt and/or save for large future projects. Note that owner/member benefits consist of both up-front benefits and the patronage refund that is sent out each April. This year, the total package amounted to over 2.6% of purchases for the average owner/member: 1.6% up-front (\$5 coupons and owner/member appreciation days), and a little over 1.0% from distributed patronage refunds. The board will review this package from time to time, and the benefits package may be adjusted in future years. *(continued on page 5)*



# 2003 FINANCIAL REPORT TO MEMBERS

*Presented by Christina Oliver, Financial Manager, Ashland Food Cooperative*

**In our first full year as a cooperative** corporation, we signed up 2,081 owner/members, which is actually almost double what we had anticipated. More than half of these members signed up in January of 2003, the very first month we were accepting new members, showing tremendous support for our decision to become a co-op. By December of 2003, almost 48% of our sales were going to members. Our

average percentage of sales to members for the whole year was just over 40%. As you can see, we are getting close to selling more to our members than we do to non-members after only one year of operation as a cooperative. This is very rapid membership growth in the co-op industry!

Our income statement shows that total sales for 2003 were \$13,130,763 net of discounts, up 24.4% from 2002, and a new

record for our store. Our gross margin was 31.7%, up 0.6% over the previous year, and labor was up by the same amount, reflecting increases in the labor cap made by the Board during the year. General and administrative expenses were down as a percentage of sales showing that we are beginning to experience some economy of scale. Income before the patronage refund and before taxes was \$286,701, up 28.9% from the year before.

The total allocated patronage refund amount for 2003 is \$61,361. This is 1.17% of about \$5.24 million in sales to active members which are eligible for patronage refund. Each member's refund will be calculated by applying that same 1.17% to the individual's total purchases for 2003. Ninety percent of that will be distributed by check, since the Board has decided to retain 10% of this patronage refund allocation for business needs.

We brought in \$154,650 from owner/membership share payments which we used to help pay down our long-term debt. As you can see on the balance sheet, our debt to equity ratio has decreased significantly in just one year. We are planning to make several large principal-only payments over the next few years in order to have our long-term debt paid off by the end of 2007, which is more than twice as fast as we had originally anticipated.

Over all, things are very bright in the financial department here at the Co-op. Sales keep rising, staff pay continues to improve with increases in productivity, and we are able to focus on improving the store more and more. We are fortunate to have such loyal owner/members, and such a productive staff!

## ASHLAND FOOD COOPERATIVE

### COMPARATIVE BALANCE SHEET

	<u>12/31/03</u>	<u>12/31/02</u>
<b>ASSETS</b>		
Current Assets (ex Inventory & Cash)	117,333	96,416
Cash	903,236	700,594
Inventory	405,943	405,402
Total Current Assets	1,426,513	1,202,411
Fixed Assets	2,078,366	2,093,371
Other Assets	0	0
Total Assets	3,504,879	3,295,782
<b>LIABILITIES &amp; EQUITY</b>		
Current Liabilities (ex Accounts Pay)	588,903	374,057
Accounts Payable	250,170	237,631
Total Current Liabilities	839,073	611,687
Long-term Liabilities	881,131	1,217,547
Total Liabilities	1,720,204	1,829,235
Owner/Member Equity	155,790	1,140
Retained Earnings	1,465,408	1,301,779
Net Income	163,477	163,629
Total Equity	1,784,675	1,466,548
Total Liabilities & Equity	3,504,879	3,295,782
Debt to Equity Ratio	0.96	1.25

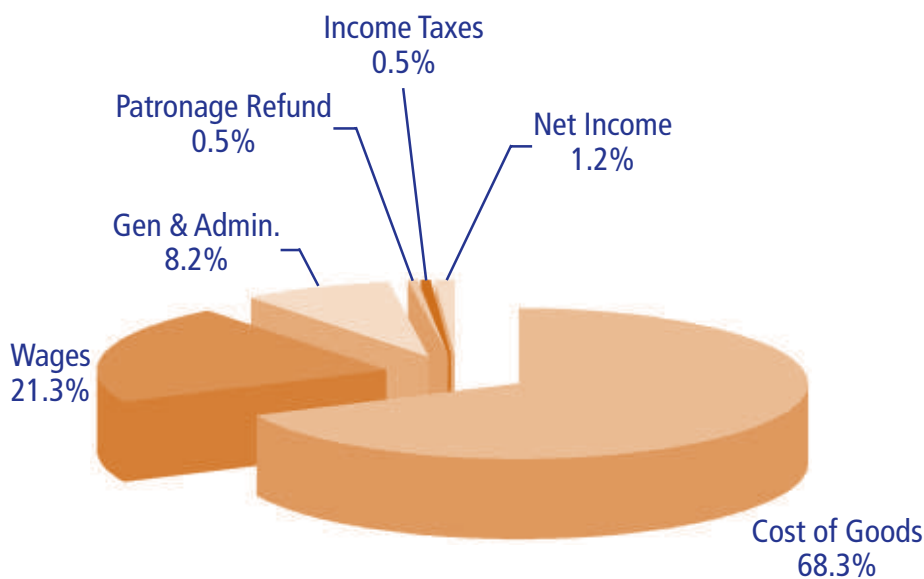


ASHLAND FOOD COOPERATIVE

**INCOME STATEMENT**

	<u>2003</u>	<u>%</u>	<u>2002</u>	<u>%</u>
Net Sales	\$13,130,76	100.0%	\$10,551,635	100.0%
Cost of goods sold	8,966,872	68.3%	7,267,288	68.9%
Gross Margin	4,163,891	31.7%	3,284,348	31.1%
<b>Operating Expenses</b>				
Wages	2,793,963	21.3%	2,179,716	20.7%
General & Administrative	1,103,008	8.4%	920,807	8.7%
Net operating income	266,919	2.0%	183,825	1.7%
Other income (expenses)	19,782	0.2%	38,547	0.4%
Income before PR and taxes	286,701	2.2%	222,372	2.1%
Patronage Refund	61,361	0.5%	0	0.0%
Taxable Income	225,340	1.7%	222,372	2.1%
Income Tax Expense	61,863	0.5%	58,743	0.6%
Net Income	\$163,477	1.2%	\$163,629	1.6%
Retained Earnings - Beginning	1,465,408		1,301,779	
Retained Earnings - Ending	\$1,628,885		\$1,465,408	

**WHERE DID THE MONEY GO IN 2003?**



**Report from the Board** *(cont. from page 3)*

**LOWER PRICES**

A little known fact about AFC is that we sell our products at significantly lower prices than most other food co-ops, while generating similar operating profits as a percentage of sales. We can sustain lower gross margins than other co-ops because we own our building and because our efficient staff keeps labor costs low. We intend to continue to search for ways to lower prices further, particularly within the Basic Pricing program that emphasizes daily staples.

**THANKS**

I'd like to close this report by emphasizing yet again that we had a great year. A big thanks to all AFC staff and management for a job well done, to the many owner/members who joined AFC in 2003, and to decades of support from our loyal shoppers.



## From the GENERAL MANAGER'S DESK

by Richard Katz  
manager@ashlandfood.coop



photo by Rob Werfel

**As you can see** from the articles by Christina Oliver and Joe Golton, 2003 was a year that we can all be proud of. Record sales growth of 24% over 2002 is no small achievement. Besides indicating financial success, record sales mean that people enjoy shopping here. As a co-op, our primary purpose is to serve our owner/members by offering the best products, service, values, and shopping experience that we can. All 112 of our terrific staff are gratified by the confidence and support we receive each day from our shoppers through your patronage. Customer satisfaction is our aim, shown also in the smiles and positive comments that you offer, and that completes the feedback loop that encourages our staff to do their best.

Our capable managers also have something to do with encouraging staff to do their best. I would like to name the

members of our management team because each of them deserves public acknowledgment for the great job they do every day. We are all more informed now of our business results because of the excellent work and clear financial reporting by Christina Oliver, our financial manager. Lynne Scionti, in her 24<sup>th</sup> year at the co-op, has been here longer than any of us, and manages our largest department, grocery, with great efficiency and expertise. Zack Burrows, our front-end manager working in his fourteenth year here, is the organizing force behind our capable and friendly team of cashiers and floor managers. Elaine Deckelman, a twenty year co-op veteran, ensures great products and service will be available to you when you look for vitamins and personal care products. Barry Haynes is our dedicated and inspired produce manager who makes sure that the beautiful displays of fruits and vegetables are the highest quality, organically grown, and locally sourced when available.

Toby Taubner and Saudia Sharkey combine their talents and energy to run our busy deli, serving delicious healthy hot and cold foods and scrumptious baked goods. Terry Boaz, our meat and seafood manager is always excited to show you his great array of fresh and healthy selections and to help you make the right choice for dinner. Kelly McNamara, our specialties manager loves to find the best cheeses, artisan baked goods, holiday items, kitchenware, and

excellent wine & beer for our gourmet customers. Elaine Heiman, our human resources manager works diligently behind the scenes to ensure that staff policies and benefits are administered fairly and with concern for all. And, last but certainly not least, Annie Hoy our ebullient member outreach/owner services manager, the "face of the co-op," makes sure that co-op news and information reaches you, our owner/members and shoppers.

I am grateful for our excellent management team and I love working with each of them, but it's the 100 cheerful, dedicated staff people that really create the shopping experience that we strive to provide for you. My thanks to each of them for making this co-op a fantastic place to shop and to work.

Our Board of Directors is responsible for ensuring that Ashland Food Co-op is being managed for the benefit of our owner/members, consistent with our mission, and with sound fiscal policies. I'm pleased to say how much I appreciate working with this group of seven people to accomplish this work. Each of these individuals brings valuable skills and experience to this task. Erik Wallbank, board president and veteran board member, has given a strong center to the board process these past two years. Diane Taudvin, vice president, has contributed as a board member and past president for over a decade. We will miss her as she leaves at the end of this term. Joe Golton, treasurer, has added his knowledge of finance and business to raise the bar even higher for our financial performance and reporting. Herb Heiman, secretary, brings his life experience and good nature to our process. Glenn Hill and Serena St. Clair, long-time board members, offer depth and experience to board decision-making. Our staff-elected board member, Ric Sayre, rounds out the board with his unique inside perspective.

These are the folks that make this co-op go and make it fun for me to come to work each day. And you are the folks that have supported us with your patronage and good spirits and made this co-op a thriving community resource for more than thirty years. It is a pleasure and joy for me to be part of our co-op. Thank you.

### Andy Bayliss

*Through Body Awareness  
and Personal Inquiry,  
Allow Yourself To Simply Be*

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- Explore Life Patterns and Relationships
- Integrate Spiritual Awakening
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