



ASHLAND FOOD COOPERATIVE

Annual Report

Annual Report

FROM THE
BOARD TREASURER

by Joe Golton, Board Treasurer

2004 was another great year for the Ashland Food Co-op (AFC). We generated record sales and income, signed up over 800 additional owners, distributed more generous owner benefits, and paid down much of our debt, all while lowering prices on many basic food items. In this report, I will discuss the last three of these points in detail.

I am also very excited to report that in 2004, we began to measure AFC's performance on the non-financial aspects of its mission statement. In the July/August newsletter will be an article describing AFC's performance on each major aspect of AFC's mission statement: an employee-friendly workplace, education, customer service, basic pricing, local/organic food, community, and serving our owners.

GENEROUS OWNER BENEFITS

As most of you know, becoming an owner requires a \$100 equity investment, which can be in one lump or spread out over 2 years with five \$20 payments. In 2004, the average full-year owner purchased about \$3000 of groceries at AFC, purchased about \$90 of these groceries on owner appreciation days, and redeemed 7.4 of 12 coupons, for the following benefits:

- \$37 From 7.4 redeemed \$5 coupons
- \$9 From receiving 10% off on owner appreciation days
- \$1 From other benefits (coupon booklets and class discounts)
- \$53 Patronage refund check from a 70% of 2.52% applied to \$3,000 purchases**
- \$100 TOTAL OWNER BENEFITS**

That's a total 2004 cash benefit of \$100 as compared with the 2003 cash benefit of \$84, from a one-time, refundable investment of \$100. Of course, owners who spent more than \$3000 and redeemed more than 7.4 of their coupons received greater cash benefits.

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 2004, AFC distributed 70% of the patronage refund (in cash) while retaining 30%. The small amounts retained from thousands of owners add up to substantial sums that can be used to pay down debt, save for large future projects, generate income, and/or build up a rainy day fund. Note that owner benefits consist of both up-front benefits and the patronage refund check that is sent out each year in Spring. This year, the total package amounted to 3.3% of purchases for the average owner in 2004: 1.5% up-front (\$5 coupons and owner appreciation days), and 1.8% from patronage refunds. This compares with 2.6% of purchases in 2003 (1.6% up-front, 1.0% from patronage refunds). This benefits package will change from year to year based on current profit levels, current cash needs, and anticipated future capital needs.

PAID DOWN DEBT

In last year's annual report, I described a new board policy on working capital that calls for automatic debt reduction when working capital exceeds \$500,000. By following this policy, retaining 30% of the patronage refund (\$56,611) and using the \$95,129 of equity investment from new owners, we were able to retire \$440,000 of our long-term debt in 2004 above and beyond our required minimum payments. We now expect that our mortgage will be retired in full by the end of 2005, and our equipment loan no later than 2007. About half of the profit improvement from 2003 to 2004 was due to the lower interest payments on the smaller loan balance. The higher profit allowed us to distribute a larger refund to owners, as well as to retain

more for the co-op.

LOWER PRICES

Many of you have already noticed a "basic pricing" tag placed on a number of items in 2004, such as organic bananas, bulk organic brown rice, Organic Valley Orange Juice, and Nancy's Organic Yogurt. While keeping prices low for basic foods has always been part of AFC's mission, 2004 was the first year where we used tags to specifically identify those items which AFC purposely sells at below-normal retail prices. We also further reduced the already low prices on some of these items and added a few more. If you compare prices on items marked "basic pricing" with identical product at other stores, you will notice how good they are. Keeping prices low on these items makes our healthy, organic products more accessible to those who find it a stretch to buy organic food, which usually costs a bit more than foods grown with pesticides.

In the owner survey many of you filled out last fall, many of you noted that prices are one of the biggest barriers to shopping more at AFC. There is a perception among many shoppers that AFC has higher prices than some of the competition. We would like to encourage owners to make sure this perception matches the reality, particularly for "basic pricing" items. We would also like to encourage owners to think about what you are supporting when you purchase food at the co-op. Our employee compensation is among the best of Rogue Valley retailers, and so is our customer service. We support the community with grants and other charitable efforts. We offer extensive cooking classes. And we place a higher priority on health and environmental concerns than lowest possible pricing.

Nevertheless, we are always looking for ways to further reduce prices, as we understand that this is very important to our owners. After extensive dialog with owners over the past year, we will soon be making adjustments to the senior discount that will
(continued on page 5)



2004 FINANCIAL REPORT TO MEMBERS

Presented by Christina Oliver, Financial Manager, Ashland Food Cooperative

In 2004, our second year as a cooperative corporation, we had an increase of over 40% in the number of owners to almost 3,000 by December 31, 2004. Our average percentage of sales to owners for the entire year was 51.1%, but by December 2004, the percentage of sales to owners was up to 56.0%. As you can see, we now sell more to our owners than we do to non-owners after only two years of operation as

a cooperative. This is very rapid growth in the co-op industry!

Our income statement shows that total sales for 2004 were \$15,094,993, up 13.3% from the previous year, and a new record for our store. Our gross margin was 33.8%, up from 32.7% last year. Labor was up slightly to 21.9% of sales, reflecting an increase in the labor cap made by the Board during the year, but still much lower than

most of the co-op industry. General and administrative expenses were up slightly as a percentage of sales mostly due to the increase in senior and member discounts and credit card fees as a percentage of sales. Income before the patronage refund and before taxes was \$437,361, up 52.5% from the year before.

The total allocated patronage refund amount for 2004 is \$188,572. This is 2.52% of about \$7.48 million in sales to active members which are eligible for patronage refund. Each owner's refund will be calculated by applying that same 2.52% to the individual's total purchases for 2004. Seventy percent of that will be the actual amount of the check, since the Board has decided to retain 30% of this patronage refund allocation in an owner capital account for business needs.

We brought in \$95,129 from owner 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 again in 2004. We have already made another \$100,000 principal-only payment in 2005, and are planning to pay off the remainder of the mortgage in the second half of this year. This means we will be mortgage-free by the end of 2005. This was a 20 year debt that we will have paid down in only 5 years!

It's so easy to have a positive outlook in the financial department here at the Co-op. Sales keep rising, we're virtually debt-free, staff pay continues to improve with increases in productivity, and we are able to focus on improving our store more and more. How fortunate we are to be a part of such a vibrant, healthy organization!

ASHLAND FOOD COOPERATIVE

COMPARATIVE BALANCE SHEET

	12/31/04	12/31/03
ASSETS		
Cash	872,240	903,016
Inventory	464,658	405,925
Other Current Assets	134,253	117,554
Total Current Assets	1,471,151	1,426,496
Fixed Assets	2,085,641	2,078,366
Total Assets	3,556,792	3,504,862
LIABILITIES & EQUITY		
Accounts Payable	279,849	250,170
Other Current Liabilities	874,566	588,903
Total Current Liabilities	1,154,415	839,073
Long-term Liabilities	318,272	881,131
Total Liabilities	1,472,687	1,720,204
Member Equity	313,126	154,650
Retained Earnings	1,630,025	1,466,548
Net Income	140,954	163,459
Total Equity	2,084,105	1,784,657
Total Liabilities & Equity	3,556,792	3,504,862
Debt to Equity Ratio	0.71	0.96

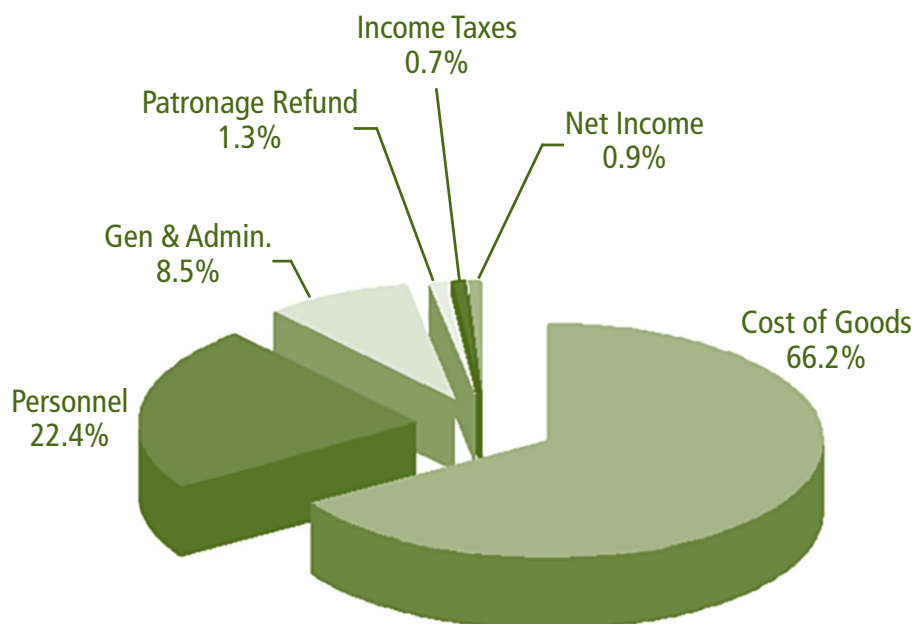


ASHLAND FOOD COOPERATIVE

INCOME STATEMENT

	<u>2004</u>	<u>%</u>	<u>2003</u>	<u>%</u>
Net Sales	\$15,094,993	100.0%	\$13,327,721	100.0%
Cost of goods sold	9,966,710	66.2%	8,975,322	67.3%
Gross Margin	5,098,283	33.8%	4,352,399	32.7%
Operating Expenses				
Wages & Benefits	3,299,295	21.9%	2,873,284	21.6%
Profit-sharing	75,475	0.5%	65,654	0.5%
General & Administrative	1,272,186	8.4%	1,067,992	8.0%
Interest Expenses	47,749	0.3%	78,529	0.6%
Other expenses (income)	(33,783)	-0.2%	(19,761)	-0.2%
Income before PR and taxes	437,361	2.9%	286,701	2.2%
Patronage Refund	188,572	1.3%	61,361	0.5%
Taxable Income	248,789	1.7%	225,340	1.7%
Income Tax Expense	107,834	0.7%	61,863	0.5%
Net Income	\$140,955	0.9%	\$163,477	1.2%
Retained Earnings - Beginning	1,628,885		1,465,408	
Retained Earnings - Ending	\$1,769,839		\$1,628,885	

WHERE DID THE MONEY GO IN 2004?



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

allow us to lower prices on more basic items. We switched to a cost-saving, partially self-insured employee health plan in January, 2004. We have joined a national co-op organization which aims to lower the cost of product from our largest distributor, and possibly other costs as well. And despite productivity which already leads the food co-op industry, we continue to search for yet more ways to improve employee productivity. The one thing we won't do is cut employee wages and benefits (except for bonuses which would be lower if we had a poor year). While we probably could offer lower prices if we paid employees less, we are as committed to our employees as we are to our owners – the essence of a socially responsible business.

THANKS

I'd like to close this report by emphasizing yet again that we had another great year. A big thanks to all AFC staff and management for a job well done, to the many owners who joined AFC in 2003 and 2004, and to decades of support from our loyal shoppers.



From the GENERAL MANAGER'S DESK

by Richard Katz
manager@ashlandfood.coop

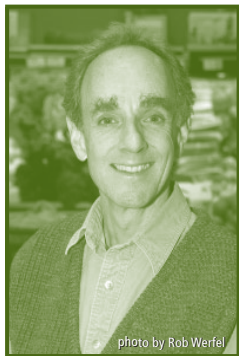


photo by Rob Werfel

This past year was by all accounts a very good year for Ashland Food Cooperative. It has been a year of some reflection and refinements as sales growth slowed and we had a chance to

see where we are. The intense growth we experienced in 2002 after the remodel and 2003 when we became a co-op kept us busy just to keep up. In the four years from 2000 to 2004, Co-op sales more than doubled. Needless to say, we are all very gratified to be serving so many people with our full selection of natural and organic products.

A big part of our reflection centered on hearing from our owners and customers. The owner survey conducted in 2004 was a focused attempt to get input and strengthen our relationship with the people that our co-op exists to serve. Of course, the survey results do not always offer a clear picture of owner's opinions or an obvious path to policy refinements and changes. It is also the job of the Board of Directors working with management and staff to reflect on the status quo and to be proactive in making needed refinements. As you know, some significant changes to our senior discount benefit have been made and will be implemented on July 1st. This began with the observation that the senior discount has been growing at a much faster pace than sales, and the baby-boom generation hasn't yet reached sixty years old. In addition to financial concerns, other inconsistencies became apparent as the senior discount policy was being reviewed by the board and by owners through a series of owner focus groups. Some general agreement emerged to limit the discount

substantially, keep it available to owners who needed it, and use the savings to lower prices on basic whole foods. (See Joe Golton's article.) This is our current plan, and we will be listening to our owners over the next six months to refine it as needed for 2006. We know change can be difficult, but we also recognize the need to improve what we do for the general good of the co-op. We hope our owners understand.

I've also been reflecting on how the co-op grew to be a leading community business since its inception in 1972. It began as a way for people to build a healthy food alternative to the mainstream supermarket food supply, and as an alternative business model in which the owners are the consumers. In the early years bank loans and conventional financing were not available and the co-op survived on labor exchange and small loans. Sustainable "grass roots" economic development were not a socially responsible choice, they were a necessity. In this way the co-op grew "organically" and continued to serve its members and the community by saving profits each year to reinvest. We did borrow some money to build our store but the bulk of the funds came from savings. This "sustainable" economic model has allowed us to own our building (to be paid in full before year's end) and avoid the typical retail costs of high rent or mortgage, which can add up to 5% of sales. In this way we have been able to keep costs down, which in turn enables us to offer competitive prices. Thanks to your support over the years, we are nearly debt-free and financially strong. We will continue to offer great products and excellent service now and in the future.

Letter from the BOARD PRESIDENT

by Erik Wallbank, Board President
erik@ashlandhome.net

The Ashland Food Co-op's board of directors have found this past year to be a transition from earlier years when we were

dealing with expanding our store, working with a new GM, and becoming a co-op. In 2004 and 2005 we have been able to begin working to refine our board processes, and to look towards long range planning. As our business grows, more and more is asked of the board and management, and because of this, the internal workings of the board need to be clear and systematic. This past year, we have looked at our board committee charters and started the process of updating them. To better deal with long board agendas, we have delegated more responsibility to board committees, asking them to do the work of researching issues, and crafting proposals that are presented to the board for discussion and decisions. It has become important that each of our processes, such as evaluations and board elections, develop a form that is consistent in content and schedule each year. Along with this, we have been working to better understand consensus decision-making as it relates to board and management.

We have also been focusing on long-range planning. During 2004, we completed an owner survey, which more than 800 owners returned. Understanding that survey, which addresses the owners' needs and concerns, has been a high priority for the board and has been essential to our long-range planning.

2004 was another good year for the store. Much of the credit for our great success goes to our GM, Richard Katz, along with the whole management team, and our dedicated staff. I would also like to thank our board of directors for the professionalism and commitment they each bring to the co-op. They are: Herb Heiman, Vice President, Joe Golton, Treasurer, Glenn Hill, Secretary, Serena Ota St. Clair, Gwen Bowman, and Ric Sayre.

And to the owners, the board works on your behalf to provide you with healthy and sustainably produced products, with excellent service, and competitive pricing. It is an honor for our board to serve. Thank you for all you have done to make our co-op a leader on the national scene while maintaining the spirit of a community store.