



Ashland Food Cooperative

2009 Annual Report

Message from the Board of Directors

by Gwyneth Bowman, President

Our AFC Board of Directors is a working example of how our Co-op embraces the Cooperative Principle of democratic governance. Elected by you to represent you, our Board is responsible for exercising the corporate powers of our Co-op. This includes the overall management of all business transactions and Co-op affairs. These duties are not performed in isolation and include collaboration with our General Manager, Management Team and our owners.



The Board's standing committees perform the majority of our job responsibilities. These committees: Outreach, Social Responsibility, Finance, Board Development, Management Relations and Grants, have been especially productive, as they have worked toward improving our Co-op's overall governance. Committees present proposals to the full Board of Directors where decisions are made and implemented.

Our significant accomplishments have been instrumental in developing a highly professional Board whose governance has contributed to the incredible success of Ashland Food Co-op.

Examples of these accomplishments include:

- Specific education and training on effective Co-op Governance.

- Communication skills including conflict management.
- Obtaining a skilled facilitator and consultant.
- Partnering with our Co-op Management Team in the development of our Strategic Priorities.
- Building links and relationships with our owners to facilitate receiving their ideas and suggestions.
- Contributing to sound fiscal management.
- Developing advanced systems to enhance our evaluation processes.
- Providing Community Grants to local organizations.
- Development of Sustainability metric to measure our success.

Our overall goal is to support our Co-op's Mission, Vision and Principles! Representing owners and encouraging your participation in our Co-op Governance helps all of us to "stop talking about it, and be about it!"

Report from the General Manager

by Richard Katz

Despite the economic downturn, AFC showed good signs of progress in 2009. Each year we update our Strategic Plan in five sections that guide our activities for the year. These include Customer Satisfaction, Owner/Community



Relations, Excellence, Growth, and Social Responsibility.

Under **Customer Satisfaction**, we made some small improvements on the retail floor. We added four more doors of frozen food to improve selection and spur sales. We built two new dry produce displays using Paperstone, a durable material made from recycled paper and natural resins, allowing us to offer more produce in a smaller footprint. In response to customer input and flat sales, we implemented Everyday Low Pricing and Employee Picks in the HABA (Health & Beauty Aids) Department. With hundreds of items selling at significant discounts, HABA sales showed marked improvement by year's end, indicating improved customer satisfaction.

One key initiative to improve **Owner/Community Relations** was implementing an owner discount on purchasing \$100 AFC Gift Cards, using cash or check. Many owners continue to take advantage of this discount, currently saving 3% on their gift card purchases. This benefits our community because using cash or checks keeps money in the local economy and there are no credit card fees on these transactions. We also conducted an owner survey with responses from more than 900 owners, who mostly felt the Co-op was doing a good job meeting their needs.

We strive for **Excellence** in our workplace wherever we can. By the end of 2009 we significantly improved both our employee health benefits and our 401k program. The changes will result in lower administration costs and greater benefit to employees. We also worked together to strengthen our Better Practices process that involves staff in making workplace

(continued on back page)



Report from the Board Treasurer

by Guy Nutter

How did our Ashland Food Co-op do financially in 2009?

In the early months of 2009, when it looked like the recession might turn into something much worse, our sales growth was flat, unlike many other businesses that experienced negative sales growth. As a precaution, the Board of Directors and management undertook some belt-tightening. This was fairly easy since AFC had no long-term debt and good cash reserves, thanks to prior and current Board decisions.

With the Co-op on sound financial footing, our financial position was strong enough to even permit the lowering of some prices to help our owners adjust to the uncertain times. As management moved cautiously and limited new hires, our employees contributed extra effort.

As we now know, the economy stabilized and our sales growth picked up. By the fourth quarter, sales were 5.7% higher than they had been in the fourth quarter of 2008. In fact, total sales for 2009 were

\$22,500,000, a 3.3% growth over 2008. Let me say that again, our Co-op had sales of over \$22,500,000 last year!

With increases in sales and lower labor costs, we were able to pass on some of those financial benefits to our employees through some of the highest productivity bonuses in AFC's history.

Owners used Up Front Benefits (the \$5 & 10% coupons sent with newsletters), together with coupon booklets, more than in previous years. Even with greater use

Our Co-op was and is in the position that every business envies, the position of being debt-free.

of these benefits, Co-op ownership is still one of the best-kept secrets in town. If you, as an owner, spent approximately \$3,000 at the Co-op in 2009, you realized Up Front Benefits of about \$59 last year compared to \$52 in 2008, \$51 in 2007 and \$49 in 2006.

How were we able to weather this financial storm so easily, and quickly

regain our sales growth? Because our Co-op was and is in the position that every business envies, the position of being debt-free. We're debt-free because this, and prior Boards of Directors voted to retain portions of our yearly Patronage Dividends that could have been distributed to us as owners. By retaining these monies, our Co-op was able to pay off its mortgage years before it was due, as well as pay for a store remodel, and buy the Pioneer property without having to get a bank loan.

This year the Board voted to retain 50% of the Patronage Dividend in anticipation of future capital needs and to distribute to owners \$290,562, the largest Patronage Dividend ever. An owner with annual purchases of approximately \$3,000 can expect to receive a Patronage Dividend check of \$55. That's in addition to the other benefits I referred to earlier. In comparison, last year's Patronage Dividend check was \$39. Those who spend more than \$3,000 can expect an even larger check.

Our loyal and dedicated owners and our hard-working employees helped our Co-op do great last year. Thank you all!



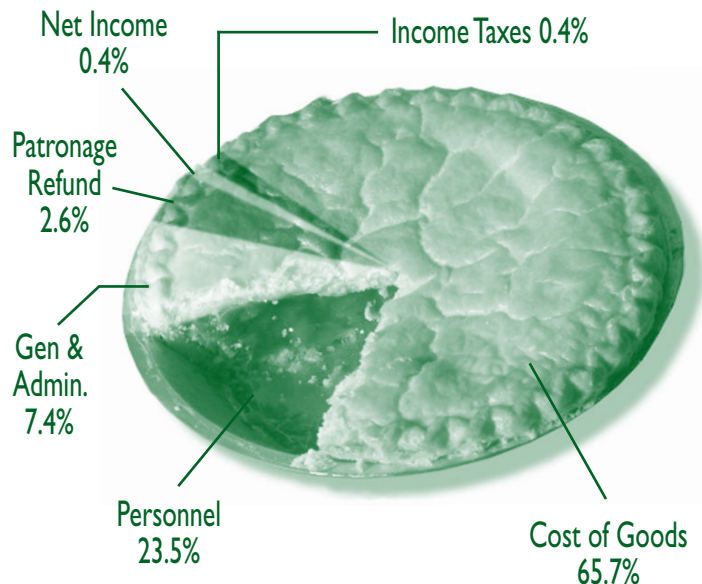
2009 Financial Report to Owners

Presented by Christina Oliver, Financial Manager

After seven years as a cooperative, Ashland Food Co-op has over 6,500 owners and 71.3% of its sales are to owners. The owner sales percentage continues to rise as new customers easily see the many benefits of becoming a Co-op owner, not the least of which is the annual patronage dividend 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 2009 were \$22,554,241; up 3.3% over 2008, which is pretty good for anyone in a stable grocery market, but is even better when you consider the recent economic

WHERE DID THE MONEY GO IN 2009?



climate. We responded quickly to the projected downturn by trimming labor and cutting back on expenses wherever we could. This ensured that although we weren't experiencing the growth we had grown accustomed to, we could still pay all the bills and maintain all the benefits (both employee and owner benefits) with some left over!

The total patronage dividend amount for 2009 was \$581,124, which is 3.7% of about \$15.8 million in sales to owners. Our CPAs calculated this amount to be the maximum patronage dividend allocation allowed by the IRS, and it's higher than last year because our overall profit was higher and the owner percentage of sales was also higher. Since the Board has decided to retain 50% of this patronage dividend allocation for future capital needs, 50% will be the actual amount distributed. Each owner will receive a check for approximately 1.8% of their purchases.

The economic lessons we all learned recently will probably not be forgotten anytime soon. It is always important to get good value for your dollars. This is something that we are emphasizing in many ways here at the Co-op; from permanently lower margins in Bulk and Produce as well as many popular items

The economic lessons we all learned recently will probably not be forgotten anytime soon. It is always important to get good value for your dollars.

in several other departments, to an expanded sale program (both length and number of items), to our Meal Solutions demos using sale items, to our free Pantry Basics cooking classes, we recognize the customer's desire to make sure their food funds go farther than ever before.

Since everyone seems to be paying more attention to where their money goes, 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

BALANCE SHEET

	12/31/09	12/31/08
ASSETS		
Cash & Cash Equivalents	1,145,466	686,202
Short-term Investments	1,270,537	720,002
Current Assets (excl. Inventory & Cash)	181,811	180,143
Inventory	585,201	580,034
Total Current Assets	3,183,015	2,166,381
Long-term Investments	108,909	109,148
Fixed Assets	2,637,213	2,765,714
Total Assets	5,929,137	5,041,243
LIABILITIES & EQUITY		
Accounts Payable	560,324	437,691
Patronage Refund Payable	290,562	196,462
Current Liabilities (excl. Accounts Payable)	908,116	679,660
Total Current Liabilities	1,759,002	1,313,813
Long-term Liabilities	181,000	192,000
Total Liabilities	1,940,002	1,505,813
Retained Patronage Refund	999,577	709,015
Retained Earnings	2,244,975	2,148,969
Equity (excl. Retained Earnings & Net Income)	638,740	581,440
Net Income	105,843	96,006
Total Equity	3,989,135	3,535,430
Total Liabilities & Equity	5,929,137	5,041,243

ASHLAND FOOD COOPERATIVE

INCOME STATEMENT

	2009	%	2008	%
Sales	22,554,241	100.00%	21,826,055	100.00%
Cost of goods sold	14,810,891	65.67%	14,390,216	65.93%
Gross Margin	7,743,350	34.33%	7,435,839	34.07%
Operating Expenses				
Wages & Benefits	5,187,232	23.00%	4,994,396	22.88%
Profit-sharing	112,771	0.50%	109,130	0.50%
Occupancy	286,615	1.27%	274,815	1.26%
Depreciation	190,145	0.84%	187,349	0.86%
Operating	490,363	2.17%	458,947	2.10%
Administrative	179,310	0.80%	242,229	1.11%
Governance	77,160	0.34%	87,998	0.40%
Member Sales Discounts	335,387	1.49%	282,803	1.30%
Promotional	204,119	0.91%	219,124	1.00%
Other expenses (income)	(97,258)	-0.43%	(61,058)	-2.80%
Income before PR and taxes	777,506	3.45%	640,106	2.93%
Patronage Refund	581,124	2.58%	392,924	1.80%
Taxable Income	196,382	0.87%	247,182	1.13%
Income Tax Expense	90,540	0.40%	151,176	0.69%
Net Income	105,842	0.47%	96,006	0.44%

Annual Social Responsibility Report

Sustainability: A Work in Progress

After forming our Sustainability Committee in 2009, we created a twenty year vision for the co-op. We then used the back casting process to identify distinct measurable goals to reach that vision. We also implemented a tracking system for each project goal. We completed the following goals for 2009:

- Eliminated single-serve plastic water bottles from our shelves.
- Purchased carbon credits to offset conference travel.
- Replaced inefficient cooler motors and received \$13,000 in energy rebates and thus reduced our electric bills.
- Eliminated chef coats in the Deli and created a system to reuse slightly soiled towels thus reducing laundry service fees and the environmental impact of those services.
- Found new recycling businesses to pick up plastic that can't be recycled in Ashland.
- Increased staff recycling with better in-store bin signage and education.
- Conducted a survey on staff commuting habits and willingness to try new, more sustainable choices.
- Evaluated 2009 projects and revised timelines to carry over incomplete or ongoing projects.
- Planned projects for 2010, including switching to durable ware in the deli, integrating the four basic principles of sustainability into product standards and creating a new training track for new employees around

The Natural Step and a refresher course for current employees.

Outreach and Service to Our Owners and Community

You Asked for It:

- We are often the first to showcase locally grown and processed foods. These foods are identified with a "local" shelf tag.
- The Product Standards Committee started a project to define GMO and identify GMO-free products.
- We continued to evaluate and expand our list of Basic Pricing foods.



Education:

- Our Community Oven Cooking Classes hosted over 500 people in the 50 classes held, the highest number ever. Topics ranged from live foods to rustic farm to table cooking.
- Free Monday Night Lectures proved to be more popular than ever with record high attendances.
- For the first time, we offered classes about: sustainable farm management, seed saving, biodynamic farming, and composting. All four classes were taught by local farming/gardening experts.

Special Events:

- Frank Morton, Willamette Valley farmer and anti-GMO activist,

keynoted our Annual Meeting.

- We partnered with THRIVE to create a week's worth of celebrations for the September Eat Local Campaign.
- Our two successful farm tours visited local community gardens, plus Applegate farms and wineries.
- The fourth annual Fall Harvest Festival closed out the season with apple tasting and pumpkin carving.



Community Support:

- Community Grants totaling almost \$25,000 were awarded to local non-profits who might be overlooked by larger grantors or that focus on underserved populations.
- Smart Chicken again matched our sales for one month and donated a percentage of them in chicken to ACCESS.
- By continuing to grow our social media presence, including facebook and twitter, we can post food news as it happens.
- Our customers continued to support local hunger programs by using Scan Against Hunger with with spontaneous giving at the cash register and by filling food barrels from Ashland Emergency Food Bank. Shoppers can also donate at the register to the Ashland Schools Foundation through Scan for our Schools.

Report from the GM (cont. from page 1) improvements through a group process at the department level.

Accommodating **Growth** continues to be a focus and a challenge for us. The number of customers shopping at the Co-op rose nearly 7%. Shoppers made more trips and spent less in each transaction, perhaps in an effort to be thrifty. 2009 sales growth finished strong as the

economy seemed to improve. Although we have not been able to expand our retail space, we did make plans to remodel our newly acquired Pioneer Street property. When complete in the summer of 2010, this building will house our Outreach programs, Community Classroom, and additional administrative offices.

Our efforts toward **Social Responsibility** bloomed in 2009. Although a

detailed report is included on this page, I want to note that we trained 136 staff people in The Natural Step, implemented a storewide Sustainability Committee to formulate long-term goals, and improved energy efficiency by replacing fan motors, compressors, and refrigeration controls.

Of course, the work is never finished and we continue to focus on our Strategic Priorities on many fronts in 2010.