



Ashland Food Co-op
FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION
December 31, 2019 and 2018

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Ashland Food Cooperative
Ashland, Oregon

We have reviewed the accompanying financial statements of Ashland Food Cooperative, which comprise the balance sheet as of December 31, 2019 and 2018, and the related statements of income, owners' equity, and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Cooperative management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such as opinion.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Accountant's Responsibility

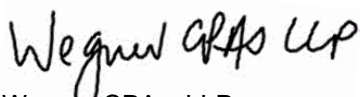
Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Supplementary Information

The supplementary information included on pages 16-17 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. We have reviewed the information and, based on our review, we are not aware of any material modifications that should be made to the information in order for it to be in accordance with accounting principles generally accepted in the United States of America. We have not audited the information and, accordingly, do not express an opinion on such information.



Wegner CPAs, LLP
Madison, Wisconsin
March 31, 2020

ASHLAND FOOD COOPERATIVE
BALANCE SHEETS
December 31, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 973,282	\$ 978,639
Certificates of deposit	3,710,644	3,220,063
Accrued interest receivable	6,894	12,566
Employee payroll advances	8,442	9,210
Other receivables	19,889	32,665
Inventory	752,576	831,551
Prepaid insurance	42,212	14,371
Prepaid property tax	26,864	25,473
Total current assets	5,540,803	5,124,538
PROPERTY AND EQUIPMENT		
Land	2,131,800	2,131,800
Building and improvements	3,399,169	3,388,983
Equipment	1,692,890	1,667,374
Property and equipment	7,223,859	7,188,157
Accumulated depreciation	(2,806,496)	(2,541,347)
Property and equipment - net	4,417,363	4,646,810
OTHER ASSETS		
Certificates of deposit	745,481	477,385
Deposits	46,613	45,396
Loan to other cooperative	83,620	88,943
Investment in National Cooperative Grocers	302,058	289,578
Total other assets	1,177,772	901,302
Total assets	\$ 11,135,938	\$ 10,672,650

See accompanying notes and independent accountant's review report.

ASHLAND FOOD COOPERATIVE
BALANCE SHEETS
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
LIABILITIES AND OWNERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 705,089	\$ 1,013,518
Unredeemed gift certificates	116,679	93,977
Retirement plan contribution payable	-	5,539
Accrued payroll and payroll taxes	313,095	271,800
Accrued productivity bonus	58,542	-
Accrued profit share bonus	153,730	112,025
Accrued vacation and sick pay	361,327	319,746
Accrued medical claims liability	150,000	150,000
Patronage dividends payable	628,652	198,526
Unclaimed patronage dividends	<u>15,820</u>	<u>12,459</u>
Total current liabilities	2,517,295	2,177,590
OTHER LIABILITIES		
Deferred income taxes	<u>23,000</u>	<u>113,000</u>
Total liabilities	2,540,295	2,290,590
OWNERS' EQUITY		
Membership stock	1,091,398	1,054,897
Patronage dividends retained	3,825,665	3,828,511
Retained earnings	<u>3,678,580</u>	<u>3,498,652</u>
Total owners' equity	<u>8,595,643</u>	<u>8,382,060</u>
Total liabilities and owners' equity	<u><u>\$ 11,135,938</u></u>	<u><u>\$ 10,672,650</u></u>

See accompanying notes and independent accountant's review report.

ASHLAND FOOD COOPERATIVE
STATEMENTS OF INCOME
Years Ended December 31, 2019 and 2018

	2019		2018	
	Amount	Percent	Amount	Percent
Sales	\$ 30,158,083	100.00	\$ 29,268,801	100.00
Less cost of goods sold	<u>19,327,436</u>	<u>64.09</u>	<u>18,701,925</u>	<u>63.90</u>
Gross profit	10,830,647	35.91	10,566,876	36.10
Other operating revenue	<u>40,659</u>	<u>0.13</u>	<u>39,955</u>	<u>0.14</u>
Net revenue from operations	10,871,306	36.04	10,606,831	36.24
Operating expenses				
Payroll expenses	7,905,014	26.21	7,483,835	25.57
General and administrative expenses	<u>2,283,685</u>	<u>7.57</u>	<u>2,319,753</u>	<u>7.93</u>
Total operating expenses	<u>10,188,699</u>	<u>33.78</u>	<u>9,803,588</u>	<u>33.50</u>
Income from operations	682,607	2.26	803,243	2.74
Other income (expenses)				
Interest income	94,453	0.31	47,873	0.16
Gain (loss) on disposal of equipment	-	-	(3,279)	(0.01)
Interest expense	-	-	(119)	-
Other income	<u>6,131</u>	<u>0.02</u>	<u>12,042</u>	<u>0.04</u>
Total other income (expenses)	<u>100,584</u>	<u>0.33</u>	<u>56,517</u>	<u>0.19</u>
Net income before provision for income taxes	783,191	2.59	859,760	2.93
Provision for income taxes	<u>25,468</u>	<u>0.08</u>	<u>(24,604)</u>	<u>(0.08)</u>
Net income	<u><u>\$ 808,659</u></u>	<u><u>2.51</u></u>	<u><u>\$ 835,156</u></u>	<u><u>3.01</u></u>

See accompanying notes and independent accountant's review report.

ASHLAND FOOD COOPERATIVE
STATEMENTS OF OWNERS' EQUITY
Years Ended December 31, 2019 and 2018

	<u>Membership Stock</u>	<u>Patronage Dividends Retained</u>	<u>Retained Earnings</u>	<u>Total Owners' Equity</u>
Balance January 1, 2018	\$ 1,019,453	\$ 3,370,036	\$ 3,316,481	\$ 7,705,970
Stock issued	50,484	-	-	50,484
Stock redeemed	(15,040)	-	-	(15,040)
Patronage dividend	-	661,743	(661,743)	-
Patronage dividends payable	-	(198,526)	-	(198,526)
Prior patronage forfeited	-	(4,742)	8,758	4,016
Net income	-	-	835,156	835,156
Balance December 31, 2018	1,054,897	3,828,511	3,498,652	8,382,060
Stock issued	50,947	-	-	50,947
Stock redeemed	(14,446)	-	-	(14,446)
Patronage dividend	-	628,652	(628,652)	-
Patronage dividends payable	-	(628,652)	-	(628,652)
Prior patronage forfeited	-	(2,846)	(79)	(2,925)
Net income	-	-	808,659	808,659
Balance December 31, 2019	<u>\$ 1,091,398</u>	<u>\$ 3,825,665</u>	<u>\$ 3,678,580</u>	<u>\$ 8,595,643</u>

See accompanying notes and independent accountant's review report.

ASHLAND FOOD COOPERATIVE
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 808,659	\$ 835,156
Adjustments to reconcile net income to net cash flows from operating activities		
Depreciation	265,149	255,175
Loss on disposal of equipment	-	3,279
Increase (decrease) in deferred income taxes	(90,000)	(38,000)
(Increase) decrease in assets		
Accrued interest receivable	5,672	(6,896)
Employee payroll advances	768	(1,990)
Other receivables	12,776	(12,883)
Inventory	78,975	(76,968)
Prepaid insurance	(27,841)	12
Prepaid property tax	(1,391)	(2,480)
Deposits	(1,217)	33,662
Investment in National Cooperative Grocers	(12,480)	(8,712)
Increase (decrease) in liabilities		
Accounts payable	(308,429)	45,828
Unredeemed gift certificates	22,702	(593)
Retirement plan contribution payable	(5,539)	(4,264)
Accrued payroll and payroll taxes	41,295	9,545
Accrued productivity bonus	58,542	(38,369)
Accrued profit share bonus	41,705	20,289
Accrued vacation and sick pay	41,581	19,629
Accrued medical claims liability	-	(20,000)
Unclaimed patronage dividends	3,361	20,793
Net cash flows from operating activities	948,649	1,032,213
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for the purchase of property and equipment	(35,702)	(1,685,576)
Proceeds from loans to other cooperatives	5,323	5,074
Purchases of certificates of deposits	(758,677)	(22,550)
Net cash flows from investing activities	(789,056)	(1,703,052)

See accompanying notes and independent accountant's review report.

ASHLAND FOOD COOPERATIVE
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of membership stock	50,947	50,484
Patronage dividends paid	(201,451)	(159,332)
Payments on redemption of membership stock	<u>(14,446)</u>	<u>(15,040)</u>
Net cash flows from financing activities	<u>(164,950)</u>	<u>(123,888)</u>
Net change in cash and cash equivalents	(5,357)	(794,727)
Cash and cash equivalents - beginning of year	<u>978,639</u>	<u>1,773,366</u>
Cash and cash equivalents - end of year	<u><u>\$ 973,282</u></u>	<u><u>\$ 978,639</u></u>
SUPPLEMENTAL INFORMATION		
Cash paid for income taxes	\$ 50,171	\$ 30,000
Noncash financing activities		
Patronage dividends payable	628,652	198,526
Prior patronage forfeited	(2,925)	4,016

See accompanying notes and independent accountant's review report.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

The Cooperative was originally incorporated in 1974 in the state of Oregon as Ashland Community Food Store, Inc., as a community-owned and member-governed nonprofit organization. In 2002 the Cooperative's membership voted to convert to a cooperative corporation and Ashland Food Cooperative (Cooperative) began operations on January 1, 2003. The Cooperative operates a natural foods store in Ashland, Oregon, which emphasizes locally produced, organically grown, and ecologically sound products. Through outreach, sponsorship of educational forums, and store events, the Cooperative promotes awareness of natural foods and the environment. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Cash Equivalents

The Cooperative considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Accounts Receivable

The Cooperative considers all accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts has been established. If amounts become uncollectible, they will be charged to operations when that determination is made.

Certificates of Deposit

The Cooperative's fifteen certificates of deposits are held in multiple financial institutions and have maturities of 3 to 25 months. Maturity dates range from January 2020 to November 2021 and interest rates range from 1.40% to 2.67% per year. Management considers the cost basis to approximate fair value.

Inventory

Inventory, which consists of grocery items held for resale, is valued at the lower of cost or net realizable value. Cost is determined using the first-in, first-out (FIFO) method.

Property and Equipment

The cost of property and equipment in excess of \$5,000 is capitalized at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Depreciation expense for 2019 and 2018 was \$265,149 and \$255,175, and is included in general and administrative expenses.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in National Cooperative Grocers

The equity in National Cooperative Grocers is not readily marketable and is recorded at cost since it may be redeemed at face value only at the discretion of the cooperative's board of directors. The investment is required to maintain participation in the purchase of merchandise or services from the cooperative.

Revenue Recognition

The Cooperative derives its revenues primarily from the sale of grocery products to its customers through its retail store location in Ashland. The Cooperative recognizes revenue at a point in time at the point of sale to its customers, as the Cooperative has determined that this is the point at which the sole performance obligation has been met and control is transferred, as the customer can direct the use and obtain substantially all of the remaining benefits from the asset at this point in time.

The Cooperative does not have any significant financing components as payment is generally required at the point of sale at the same time goods are exchanged. Variable consideration, which typically includes product returns and other discounts, is estimated using the expected value or most likely amount method, and the Cooperative reduces revenue accordingly. The Cooperative does not expect significant changes to estimates of variable consideration.

Discounts provided to customers by the Cooperative at the time of sale, including those provided in connection with ownership, are recognized as a reduction in sales as the products are sold. Discounts provided by vendors, usually in the form of paper coupons, are not recognized as a reduction in sales provided the coupons are redeemable at any retailer that accepts coupons. The Cooperative records a receivable from the vendor for the difference in sales price and payment received from the customer at the point of sale.

Taxes collected from customers for amounts assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction, that are collected by the Cooperative from a customer, are excluded from revenue.

The Cooperative acts as principal in certain vendor arrangements where the purchase and sale of inventory are virtually simultaneous. The Cooperative records revenue and related cost on a gross basis for these arrangements.

The Cooperative sells gift cards that can be used at its store, and a contract liability is recognized when gift cards are sold. The Cooperative does not charge fees on unused gift cards and cards do not expire. Revenue from gift cards is recognized when the gift card is redeemed by the customer or the likelihood of the gift card being redeemed is remote and the Cooperative has no legal obligation to remit the unused balance to relevant jurisdictions as unclaimed property. While gift cards are generally redeemed within 12 months, some are never fully redeemed. The Cooperative recognizes gift card breakage under the proportional method, where recognition of breakage income is based upon the historical run-off rate of unredeemed gift cards. There was no gift card breakage income included in revenue for 2019 and 2018.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Cooperative's contract liabilities from gift card sales for 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Beginning of year	\$ 93,977	\$ 94,570
End of year	116,679	93,977

Adoption of New Accounting Guidance

On May 28, 2014, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU and all subsequently issued clarifying ASUs supersedes the revenue recognition requirements and most industry-specific guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements that will provide users of the financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The Cooperative adopted the requirements of the new guidance as of January 1, 2019, using the modified retrospective method of transition. The majority of the Cooperative's revenue is recognized at a point in time based on the transfer of control. In addition, the majority of the Cooperative's contracts do not contain variable consideration and contract modifications are generally minimal. Based on the Cooperative's evaluation of whether the Cooperative acts as principal or agent in certain vendor arrangements where the purchase and sale of inventory are virtually simultaneous, it has determined that it will continue to record revenue and related costs on a gross basis for the arrangements.

The adoption of the new guidance did not have a significant impact on the Cooperative's financial statements. The majority of the Cooperative's revenue arrangements generally consist of a single performance obligation, which is to transfer goods. Based on the Cooperative's evaluation process, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new guidance

Income Tax

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes resulting primarily from the use of different methods and lives of property and equipment for financial and income tax purposes. In addition, a portion of the deferred income taxes results from timing differences in accrued compensated absences and accrued profit sharing bonuses, which are not deductible for income tax purposes unless actually compensated within two and one-half months following the Cooperative's year end.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The deferred taxes represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are recovered or settled. The deferred tax assets and liabilities are determined based on temporary differences between the financial statement carrying value amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the years in which the temporary differences are expected to reverse.

The Cooperative is allowed to deduct for income tax purposes the qualified patronage dividend allocations made by the board of directors. A minimum of 20 percent of the qualified dividend allocations must be paid in cash each year within eight and one-half months following the end of the Cooperative's fiscal year. Dividends not paid in cash are retained and included in the equity of the Cooperative.

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could differ from those estimates.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for 2019 and 2018 were \$58,106 and \$64,652.

Presentation of Sales Taxes

The City of Ashland imposes sales tax of 5% on some of the Cooperative sales to nonexempt customers. The Cooperative collects those taxes from customers and remits the entire amount to the City. The Cooperative's accounting policy is to exclude the taxes collected and remitted to the City from sales and cost of sales.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Date of Management's Review

Management has evaluated subsequent events through March 31, 2020, the date which the financial statements were available to be issued.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 2 – LOAN TO OTHER COOPERATIVE

The Cooperative issued a subordinated promissory note for \$100,000 to the NCG-Development Cooperative Loan Fund to support the operations of other cooperatives. The Cooperative receives monthly payments of principal and interest on deployed funds which mature in 2026 and 2027. The investment has an interest rate of 3%. At December 31, 2019 and 2018, the note receivable balance was \$83,620 and \$88,943.

NOTE 3 – ACCRUED MEDICAL CLAIMS LIABILITY

Effective January 1, 2004 the Cooperative adopted a partially self-funded preferred provider organization coinsurance plan for employee group health benefits. Under the plan, a third party administrator processes employee medical claims and the Cooperative is responsible for payment of the claims in accordance with the benefit provisions of the plan. The Cooperative maintains stop-loss insurance under the plan for claims exceeding \$55,000 annually per covered member and dependents. Additionally there is a monthly maximum stop-loss limit based on the number of enrolled participants. The Cooperative accrued an estimated liability of \$150,000 for unsubmitted claims as of December 31, 2019 and 2018.

NOTE 4 – PENSION PLAN

Employees are eligible for the Cooperative's pension plan after reaching age eighteen and providing 1,000 hours of service within a one year period. The Cooperative changed certain plan features and adopted a Safe Harbor Plan structure as of January 1, 2010. The Cooperative will match 100% of employee deferrals up to 3% of compensation and half of employee deferrals between 3% and 5% of compensation. The Cooperative may also make additional discretionary matching contributions. Pension expense for 2019 and 2018 was \$164,862 and \$167,269.

NOTE 5 – PRODUCTIVITY BONUS

The Board of Directors has approved a productivity bonus based on total labor costs as a percentage of sales. The bonus is calculated as the difference between total labor and benefit costs not including insurance benefits, employee relations expenses, or recruitment expenses and 22.85% of sales. The productivity bonus is to be paid to employees quarterly. The productivity bonus was \$109,617 and \$0 for 2019 and 2018.

NOTE 6 – PROFIT SHARE BONUS

The Cooperative has an annual profit share bonus plan. Employees are paid a bonus based on a share of the profits before deduction of the profit share bonus, income taxes, and patronage dividends. The bonus is calculated as one-half of the profit in excess of 1.5 percent of gross sales, limited to a maximum bonus of one-half of one percent of sales. In effect, the bonus is one-half of the profit increment between 1.5 and 2.5 percent of gross sales. The profit share bonus is to be paid annually to qualifying employees. The profit share bonus was \$153,730 and \$112,025 for 2019 and 2018.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 7 – MEMBERSHIP EQUITY

Membership investments represent one share of stock in the Cooperative. Membership is available to the general public for a \$100 investment, which may be paid with an initial payment of \$10 followed by quarterly installments of \$10 each. Full participation rights are accorded to each member who is current in payment of the share purchase requirement. Membership entitles the patron to various benefits including participation in the patronage dividend allocations based on purchases from the Cooperative. 100,000 shares are authorized at zero par value. There were 12,023 and 11,675 outstanding shares at December 31, 2019 and 2018.

NOTE 8 – SIGNIFICANT CONCENTRATIONS

Credit Risk

The Cooperative maintains cash balances at local, regional, and national financial institutions. The Federal Deposit Insurance Corporation insures accounts at each institution up to \$250,000. Cash balances at one of these institutions totaled approximately \$565,000 and \$570,000 on December 31, 2019 and 2018.

Collective Bargaining Agreement

The Cooperative employs both union and nonunion workers and recognizes the AFC Employee Alliance as a labor organization. The current bargaining agreement covers 80% of the Cooperative's employees, became effective as of January 16, 2018, and remains in effect until a new contract is ratified or both parties consent to terminate the agreement.

NOTE 9 – DESCRIPTION OF LEASING ARRANGEMENTS

In December of 2016, the Cooperative entered into a lease for food preparation and retail space. This lease which runs through December 2021 and requires quarterly payments of \$10,000, increasing by 3% each year. Additionally, the Cooperative has agreements to lease certain office equipment with lease terms expiring through 2022.

Lease expense for 2019 and 2018 was \$63,625 and \$63,611.

Future minimum lease payments are as follows:

2020	\$59,470
2021	60,917
2022	10,515
2023	1,774

NOTE 10 – PURCHASING AGREEMENT

The Cooperative has an agreement through National Cooperative Grocers (NCG) with United Natural Food, Inc. (UNFI). The Cooperative agrees to use UNFI as its primary supplier in exchange for additional purchase discounts. UNFI provides approximately 60% of the value of items purchased for resale.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 10 – PURCHASING AGREEMENT (continued)

As part of this agreement the Cooperative, along with other natural food cooperatives in the Western Corridor, is a member of the Joint Liability Fund (JLF) coordinated by NCG. At December 31, 2019 and 2018, the Cooperative had a deposit with JLF for \$38,313 and \$34,500. In order to obtain better terms with UNFI the members of the JLF have guaranteed the debt of the other members to UNFI. If a member were to default on its debt, the other members would each be responsible for a share of the debt based on their total purchases from UNFI. The total liability for this debt could exceed the amount of the deposit with the JLF.

NOTE 11 – INCOME TAXES

Federal and state income taxes have been provided for in the statements of income as follows:

	2019	2018
Current federal income tax	\$ (34,532)	\$ (32,604)
Current Oregon income tax	(30,000)	(30,000)
Total current provision	(64,532)	(62,604)
Deferred income tax benefit (expense)	90,000	38,000
Provision for income taxes	\$ 25,468	\$ (24,604)

NOTE 12 – PATRONAGE DIVIDENDS

The Cooperative annually calculates the share of overall net income resulting from members' patronage of the Cooperative. For the year ended December 31, 2019, net income from members' patronage was \$628,652. The Board of Directors declared a patronage dividend of \$628,652 for 2019. Of the declared dividend, 100 percent will be paid in cash. The liability for cash dividends payable is \$628,652 for the year ended December 31, 2019.

For the year ended December 31, 2018, net income from members' patronage was \$666,420. The Board of Directors declared a patronage dividend of \$661,743 for 2018. Of the declared dividend, 30 percent was paid in cash. The liability for cash dividends payable was \$198,526 and the retained patronage dividends were \$463,216 for the year ended December 31, 2018. The 2018 retained patronage dividends were reported in the owners' equity section of the balance sheet.

NOTE 13 – LINE OF CREDIT

The Cooperative's \$3,000,000 revolving line of credit matures on October 1, 2020 and carries a floating interest rate of the Prime Rate set by the lender. The balance on the line of credit was \$0 at December 31, 2019 and 2018.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2019 and 2018

NOTE 14 – SUBSEQUENT EVENTS

The COVID-19 outbreak in the United States which escalated in March 2020 has resulted in reduced customer traffic. These developments are expected to result in lower sales and gross margin compared to historical results. However, the related financial impact and duration cannot be reasonably estimated at this time.

ASHLAND FOOD COOPERATIVE
SCHEDULES OF COST OF GOODS SOLD AND PAYROLL EXPENSES
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Schedules of Cost of Goods Sold		
Beginning inventory	\$ 831,551	\$ 754,583
Purchases		
Mercantile	132,585	145,582
Books	36,713	46,459
Grocery	3,494,453	3,431,999
Frozen	501,233	503,363
Meat	1,755,529	1,781,664
Cooler	1,868,494	1,748,308
Specialties	780,295	774,722
Bulk	1,375,719	1,399,005
Wellness	1,799,123	1,806,352
Bakery	817,884	799,917
Produce	3,910,056	3,740,040
Deli	1,775,572	1,651,216
Beer and wine	874,527	833,538
Deli packaging	124,939	113,801
Purchase discounts	(6,586)	(5,513)
Delivery surcharges	7,925	8,440
Total beginning inventory and purchases	20,080,012	19,533,476
Less ending inventory	<u>(752,576)</u>	<u>(831,551)</u>
Cost of goods sold	<u>\$ 19,327,436</u>	<u>\$ 18,701,925</u>
	<u>2019</u>	<u>2018</u>
Schedules of Payroll Expenses		
Salaries and wages	\$ 6,302,387	\$ 5,895,925
Payroll taxes	529,178	513,952
Workers compensation insurance	49,125	34,210
Employee discounts	107,728	113,971
Employee benefits	916,596	925,777
Payroll expenses	<u>\$ 7,905,014</u>	<u>\$ 7,483,835</u>

ASHLAND FOOD COOPERATIVE
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
Years Ended December 31, 2019 and 2018

	2019	2018
Advertising and promotion	\$ 121,820	\$ 131,941
Bad debts	452	150
Bank and merchant credit card fees	416,190	396,436
Board of directors expense	73,201	75,999
Cash short (over)	270	116
Community grants	23,850	23,300
Community oven expense	5,574	10,562
Conferences and seminars	27,897	27,842
Consulting fees	20,122	39,367
Contracted services	80,229	118,317
Depreciation	265,149	255,175
Dues and subscriptions	40,296	38,882
Equipment rental and leasing	63,625	63,611
Insurance	87,678	82,350
Laundry and cleaning supplies	29,727	36,164
Legal and professional	67,333	75,542
Licenses, taxes and fees	6,265	5,378
Meals and entertainment	326	3,109
Membership expense	1,530	6,587
Office expense	138,311	144,724
Postage	4,917	4,829
Property taxes	52,659	48,467
Recruitment	6,212	1,555
Repairs and maintenance	105,083	102,044
Other personnel expenses	196,255	194,870
Signage	6,238	17,351
Small tools and equipment	18,941	17,170
Store supplies	235,253	220,743
Telephone	10,577	11,325
Trade show expense	2,258	4,318
Travel expense	1,466	860
Utilities	173,981	160,669
General and administrative expenses	\$ 2,283,685	\$ 2,319,753