



Ashland Food Co-op
FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION
December 31, 2020 and 2019

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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 sheets as of December 31, 2020 and 2019, and the related statements of income, owners' equity, and cash flows for the years 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 reviews, 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. The supplementary information has been subjected to the review procedures applied in our review of the basic financial statements. We are not aware of any material modifications that should be made to the supplementary information. We have not audited the supplementary information and do not express an opinion on such information.



Wegner CPAs, LLP
Madison, Wisconsin
April 7, 2021

ASHLAND FOOD COOPERATIVE
BALANCE SHEETS
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,775,916	\$ 973,282
Certificates of deposit	3,988,653	3,710,644
Accrued interest receivable	2,777	6,894
Employee payroll advances	6,542	8,442
Other receivables	36,406	19,889
Inventory	802,826	752,576
Prepaid insurance	11,932	42,212
Prepaid property tax	<u>26,765</u>	<u>26,864</u>
Total current assets	7,651,817	5,540,803
PROPERTY AND EQUIPMENT		
Land	2,131,800	2,131,800
Building and improvements	3,426,759	3,399,169
Equipment	<u>1,724,361</u>	<u>1,692,890</u>
Property and equipment	7,282,920	7,223,859
Accumulated depreciation	<u>(3,047,073)</u>	<u>(2,806,496)</u>
Property and equipment - net	4,235,847	4,417,363
OTHER ASSETS		
Certificates of deposit	232,840	745,481
Deposits	122,787	46,613
Loan to other cooperative	78,047	83,620
Investment in National Cooperative Grocers	294,546	302,058
Deferred income taxes	<u>401,000</u>	<u>-</u>
Total other assets	<u>1,129,220</u>	<u>1,177,772</u>
Total assets	<u><u>\$ 13,016,884</u></u>	<u><u>\$ 11,135,938</u></u>

See accompanying notes and independent accountant's review report.

ASHLAND FOOD COOPERATIVE
BALANCE SHEETS
December 31, 2020 and 2019

	2020	2019
LIABILITIES AND OWNERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 727,257	\$ 705,089
Unredeemed gift certificates	142,262	116,679
Retirement plan contribution payable	29	-
Accrued payroll and payroll taxes	337,852	313,095
Accrued productivity bonus	-	58,542
Accrued profit share bonus	149,488	153,730
Accrued vacation and sick pay	422,889	361,327
Income taxes payable	68,106	14,361
Accrued medical claims liability	150,000	150,000
Patronage dividends payable	476,500	628,652
Unclaimed patronage dividends	635	15,820
Total current liabilities	2,475,018	2,517,295
OTHER LIABILITIES		
Deferred income taxes	-	23,000
Total liabilities	2,475,018	2,540,295
OWNERS' EQUITY		
Membership stock	1,119,573	1,091,398
Patronage dividends retained	4,994,256	3,825,665
Retained earnings	4,428,037	3,678,580
Total owners' equity	10,541,866	8,595,643
Total liabilities and owners' equity	\$ 13,016,884	\$ 11,135,938

See accompanying notes and independent accountant's review report.

ASHLAND FOOD COOPERATIVE
STATEMENTS OF INCOME
Years Ended December 31, 2020 and 2019

	<u>2020</u>		<u>2019</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Sales	\$ 31,013,249	100.00	\$ 30,158,083	100.00
Less cost of goods sold	<u>19,701,176</u>	<u>63.53</u>	<u>19,327,436</u>	<u>64.09</u>
Gross profit	11,312,073	36.47	10,830,647	35.91
Other operating revenue	<u>63,737</u>	<u>0.21</u>	<u>40,659</u>	<u>0.13</u>
Net revenue from operations	11,375,810	36.68	10,871,306	36.04
Operating expenses				
Payroll expenses	8,459,138	27.28	7,905,014	26.21
General and administrative expenses	<u>2,471,176</u>	<u>7.97</u>	<u>2,283,685</u>	<u>7.57</u>
Total operating expenses	<u>10,930,314</u>	<u>35.25</u>	<u>10,188,699</u>	<u>33.78</u>
Income from operations	445,496	1.43	682,607	2.26
Other income				
Paycheck Protection Program income	1,513,700	4.88	-	-
Interest income	65,465	0.21	94,453	0.31
Other income	<u>26,868</u>	<u>0.09</u>	<u>6,131</u>	<u>0.02</u>
Total other income	<u>1,606,033</u>	<u>5.18</u>	<u>100,584</u>	<u>0.33</u>
Net income before income taxes	2,051,529	6.61	783,191	2.59
Provision for income taxes	<u>339,000</u>	<u>1.09</u>	<u>25,468</u>	<u>0.08</u>
Net income	<u><u>\$ 2,390,529</u></u>	<u><u>5.52</u></u>	<u><u>\$ 808,659</u></u>	<u><u>2.51</u></u>

See accompanying notes and independent accountant's review report.

ASHLAND FOOD COOPERATIVE
STATEMENTS OF OWNERS' EQUITY
Years Ended December 31, 2020 and 2019

	Membership Stock	Patronage Dividends Retained	Retained Earnings	Total Owners' Equity
Balance January 1, 2019	\$ 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	1,091,398	3,825,665	3,678,580	8,595,643
Stock issued	38,205	-	-	38,205
Stock redeemed	(10,030)	-	-	(10,030)
Patronage dividend	-	1,647,487	(1,647,487)	-
Patronage dividends payable	-	(476,500)	-	(476,500)
Prior patronage forfeited	-	(2,396)	6,415	4,019
Net income	-	-	2,390,529	2,390,529
Balance December 31, 2020	<u>\$ 1,119,573</u>	<u>\$ 4,994,256</u>	<u>\$ 4,428,037</u>	<u>\$ 10,541,866</u>

See accompanying notes and independent accountant's review report.

ASHLAND FOOD COOPERATIVE
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 2,390,529	\$ 808,659
Adjustments to reconcile net income to net cash flows from operating activities		
Depreciation	240,577	265,149
Change in deferred income taxes	(424,000)	(90,000)
(Increase) decrease in assets		
Accrued interest receivable	4,117	5,672
Employee payroll advances	1,900	768
Other receivables	(16,517)	12,776
Inventory	(50,250)	78,975
Prepaid insurance	30,280	(27,841)
Prepaid property tax	99	(1,391)
Deposits	(76,174)	(1,217)
Investment in National Cooperative Grocers	7,512	(12,480)
Increase (decrease) in liabilities		
Accounts payable	22,168	(308,429)
Unredeemed gift certificates	25,583	22,702
Retirement plan contribution payable	29	(5,539)
Accrued payroll and payroll taxes	24,757	41,295
Accrued productivity bonus	(58,542)	58,542
Accrued profit share bonus	(4,242)	41,705
Accrued vacation and sick pay	61,562	41,581
Income taxes payable	53,745	14,361
Unclaimed patronage dividends	(15,185)	3,361
Net cash flows from operating activities	2,217,948	948,649
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for the purchase of property and equipment	(59,061)	(35,702)
Proceeds from loans to other cooperatives	5,573	5,323
Redemptions of certificates of deposits	234,632	
Purchases of certificates of deposits	-	(758,677)
Net cash flows from investing activities	181,144	(789,056)

See accompanying notes and independent accountant's review report.

ASHLAND FOOD COOPERATIVE
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of membership stock	38,205	50,947
Patronage dividends paid	(624,633)	(201,451)
Payments on redemption of membership stock	<u>(10,030)</u>	<u>(14,446)</u>
Net cash flows from financing activities	<u>(596,458)</u>	<u>(164,950)</u>
Net change in cash and cash equivalents	1,802,634	(5,357)
Cash and cash equivalents - beginning of year	<u>973,282</u>	<u>978,639</u>
Cash and cash equivalents - end of year	<u>\$ 2,775,916</u>	<u>\$ 973,282</u>
SUPPLEMENTAL INFORMATION		
Cash paid for taxes	\$ 70,800	\$ 50,171
Noncash financing activities		
Patronage dividends payable	476,500	628,652
Prior patronage forfeited	4,019	2,925

See accompanying notes and independent accountant's review report.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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 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.

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 based on historical experience. 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 2021 to December 2022 and interest rates range from 0.05% to 2.10% 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 2020 and 2019 was \$240,577 and \$265,149, and is included in general and administrative expenses.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in National Cooperative Grocers

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

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 2020 and 2019.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Cooperative's contract liabilities from gift card sales for 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Beginning of year	\$ 116,679	\$ 93,977
End of year	142,262	116,679

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.

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 2020 and 2019 were \$47,697 and \$58,106.

Date of Management's Review

Management has evaluated subsequent events through April 7, 2021, the date which the financial statements were available to be issued.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

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, 2020 and 2019, the note receivable balance was \$78,047 and \$83,620.

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, 2020 and 2019.

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 2020 and 2019 was \$190,913 and \$164,862.

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 \$19,791 and \$109,616 for 2020 and 2019.

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 \$149,488 and \$153,730 for 2020 and 2019.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 7 – PAYCHECK PROTECTION PROGRAM AWARD

In May 2020, the Cooperative applied for a Paycheck Protection Program (PPP) loan as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) implemented by the United States Small Business Administration (SBA) to help cover payroll costs, rent, and utilities during the COVID-19 outbreak. The Cooperative received a 1% interest loan from this program, repayable over 24 months, in the amount of \$1,513,700. If the Cooperative is able to meet certain criteria set forth by the CARES Act, the loan may qualify for partial or full forgiveness as long as the loan is used keep employees and pay eligible costs during the eligible period after receiving the loan. At December 31, 2020, based on the provisions of the loan, the Cooperative expects to conditionally receive complete forgiveness. As such, \$1,513,700 of revenue was recorded to remove the associated liability. The Cooperative intends to apply for forgiveness in 2021.

The Cooperative must retain PPP documentation in its files for six years after the date the loan is forgiven or repaid in full and permit authorized representatives of SBA to access such files upon request. SBA may review any loan at any time at its discretion. Therefore, SBA may review the Cooperative's good-faith certification concerning the necessity of its loan request, whether the Cooperative calculated the loan amount correctly, whether the Cooperative used loan proceeds for the allowable uses specified in the CARES Act, and whether the Cooperative is entitled to loan forgiveness in the amount claimed on its application. If SBA determines the Cooperative was ineligible for the loan or for forgiveness in whole or in part, SBA will seek repayment of the outstanding loan balance.

NOTE 8 – LINE OF CREDIT

The Cooperative's \$3,000,000 revolving line of credit matures on November 1, 2021 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, 2020 and 2019.

NOTE 9 – 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 12,280 and 12,023 outstanding shares at December 31, 2020 and 2019.

NOTE 10 – 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 \$2,055,000 and \$565,000 at December 31, 2020 and 2019.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 10 – SIGNIFICANT CONCENTRATIONS (continued)

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 75% of the Cooperative's employees, became effective as of January 1, 2020, and remains in effect until a new contract is ratified or both parties consent to terminate the agreement.

NOTE 11 – 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 2025.

Lease expense for 2020 and 2019 was \$61,015 and \$63,625.

Future minimum lease payments are as follows:

2021	\$	65,549
2022		15,255
2023		7,948
2024		5,922
2025		3,948

NOTE 12 – PURCHASING AGREEMENT

The Cooperative has an agreement through 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 45% of the value of items purchased for resale.

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, 2020 and 2019, the Cooperative had a deposit with JLF for \$39,407 and \$38,313. 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.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 13 – INCOME TAXES

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

	<u>2020</u>	<u>2019</u>
Current federal income tax	\$ (25,000)	\$ (34,532)
Current Oregon income tax	<u>(60,000)</u>	<u>(30,000)</u>
Total current provision	(85,000)	(64,532)
Deferred income tax benefit	<u>424,000</u>	<u>90,000</u>
Provision for income taxes	<u>\$ 339,000</u>	<u>\$ 25,468</u>

The difference between the provision for income taxes at the statutory federal tax rates and the Cooperative's actual provision for income taxes is primarily due to the treatment of the Paycheck Protection Program loan forgiveness. The CARES Act, enacted in March 2020, provided that loan forgiveness under a PPP loan is excludible from gross income. Section 276 of the Consolidated Appropriations Act, enacted in December 2020, states that deductions relating to loan forgiveness will be allowed. In addition, there are differences related to patronage dividend deductions, state income taxes, and nondeductible expenses.

Deferred taxes are recognized for temporary differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to the net operating loss available to offset taxable income. The Cooperative has a net operating loss carryforward available to reduce taxable income of approximately \$1,085,000 for federal purposes that does not expire.

The Cooperative's total deferred tax asset and deferred tax liability at December 31, 2020 and 2019 were as follows:

	<u>2020</u>	<u>2019</u>
Deferred tax asset	\$ 401,000	\$ 73,000
Deferred tax asset valuation allowance	-	-
Deferred tax liability	<u>-</u>	<u>(96,000)</u>
Net deferred tax asset (liability)	<u>\$ 401,000</u>	<u>\$ (23,000)</u>

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2020 and 2019

NOTE 14 – 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, 2020, net income subject to members' patronage was \$1,647,487, due in part to the treatment of the Paycheck Protection Program award. The Board of Directors declared a patronage dividend of \$1,647,487 for 2020. Of the declared dividend, 28.92 percent will be paid in cash. The liability for cash dividends payable is \$476,500 and the retained patronage dividends were \$1,170,987 for the year ended December 31, 2020. Retained patronage dividends are reported in the owners' equity section of the balance sheet.

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 was paid in cash. The liability for cash dividends payable was \$628,652 for the year ended December 31, 2019.

ASHLAND FOOD COOPERATIVE
SCHEDULES OF COST OF GOODS SOLD AND PAYROLL EXPENSES
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Schedules of Cost of Goods Sold		
Beginning inventory	\$ 752,576	\$ 831,551
Purchases		
Mercantile	204,788	132,585
Books	-	36,713
Grocery	3,902,516	3,494,453
Frozen	619,016	501,233
Meat	2,056,063	1,755,529
Cooler	1,942,929	1,868,494
Specialties	809,725	780,295
Bulk	1,283,024	1,375,719
Wellness	1,793,962	1,799,123
Bakery	798,696	817,884
Produce	3,887,364	3,910,056
Deli	1,385,178	1,775,572
Beer and wine	967,585	874,527
Deli packaging	103,827	124,939
Purchase discounts	(5,887)	(6,586)
Delivery surcharges	2,640	7,925
Total beginning inventory and purchases	20,504,002	20,080,012
Less ending inventory	<u>(802,826)</u>	<u>(752,576)</u>
Cost of goods sold	<u>\$ 19,701,176</u>	<u>\$ 19,327,436</u>
	<u>2020</u>	<u>2019</u>
Schedules of Payroll Expenses		
Salaries and wages	\$ 6,937,946	\$ 6,302,387
Payroll taxes	540,804	529,178
Workers compensation insurance	64,992	49,125
Employee discounts	125,994	107,728
Employee benefits	789,402	916,596
Payroll expenses	<u>\$ 8,459,138</u>	<u>\$ 7,905,014</u>

ASHLAND FOOD COOPERATIVE
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Advertising and promotion	\$ 135,791	\$ 121,820
Bad debts	243	452
Bank and merchant credit card fees	413,910	416,190
Board of directors expense	88,424	73,201
Cash short (over)	753	270
Community grants	24,240	23,850
Community oven expense	1,646	5,574
Conferences and seminars	19,898	27,897
Consulting fees	42,019	20,122
Contracted services	48,126	80,229
Depreciation	240,577	265,149
Dues and subscriptions	37,501	40,296
Equipment rental and leasing	66,616	63,625
Insurance	94,284	87,678
Laundry and cleaning supplies	30,636	29,727
Legal and professional	66,207	67,333
Licenses, taxes and fees	5,396	6,265
Meals and entertainment	232	326
Membership expense	3,085	1,530
Office expense	161,556	138,311
Postage	3,313	4,917
Property taxes	53,629	52,659
Recruitment	1,713	6,212
Repairs and maintenance	104,066	105,083
Other personnel expenses	251,605	196,255
Signage	9,531	6,238
Small tools and equipment	10,277	18,941
Store supplies	372,751	235,253
Telephone	10,660	10,577
Trade show expense	834	2,258
Travel expense	3,176	1,466
Utilities	168,481	173,981
General and administrative expenses	<u>\$ 2,471,176</u>	<u>\$ 2,283,685</u>