



FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION

December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Ashland Food Cooperative
Ashland, Oregon

Opinion

We have audited the financial statements of Ashland Food Cooperative, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Ashland Food Cooperative as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Ashland Food Cooperative and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Ashland Food Cooperative's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Ashland Food Cooperative's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Ashland Food Cooperative's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The 2022 and 2021 Schedule of Cost of Goods Sold and Payroll Expenses and Schedule of General and Administrative Expenses are presented for purposes of additional analysis and are not a required part of the 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 information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Wegner CPAs, LLP
Madison, Wisconsin
March 16, 2023

ASHLAND FOOD COOPERATIVE
BALANCE SHEETS
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,025,578	\$ 2,843,935
Certificates of deposit	3,741,056	3,969,149
Accrued interest receivable	13,715	961
Employee payroll advances	5,050	9,665
Tax credits and refunds receivable	2,114,888	2,114,888
Other receivables	26,872	17,477
Inventory	896,310	809,508
Prepaid insurance	14,115	12,892
Prepaid taxes	27,195	43,982
ROU asset, current	49,027	-
Total current assets	8,913,806	9,822,457
PROPERTY AND EQUIPMENT		
Land	2,131,800	2,131,800
Building and improvements	3,987,705	3,847,323
Equipment	1,716,943	1,733,925
Property and equipment	7,836,448	7,713,048
Accumulated depreciation	(3,388,533)	(3,275,278)
Property and equipment - net	4,447,915	4,437,770
OTHER ASSETS		
Certificates of deposit	977,282	255,547
Deposits	206,104	100,578
Loan to other cooperative	60,932	72,189
Investment in National Co+op Grocers	374,259	329,525
Deferred income taxes	299,000	100,000
ROU asset, long-term	236,877	-
Total other assets	2,154,454	857,839
Total assets	\$ 15,516,175	\$ 15,118,066

See accompanying notes.

ASHLAND FOOD COOPERATIVE
BALANCE SHEETS
December 31, 2022 and 2021

	2022	2021
LIABILITIES AND OWNERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 904,035	\$ 849,915
Unredeemed gift certificates	137,947	142,675
Retirement plan contribution payable	-	249
Accrued payroll and payroll taxes	309,534	339,158
Accrued productivity bonus	83,221	29,279
Accrued profit share bonus	63,708	157,222
Accrued vacation and sick pay	361,895	407,619
Income taxes payable	7,750	27,500
Accrued medical claims liability	150,000	150,000
Patronage dividends payable	409,013	509,572
Lease liability, current	49,027	-
Total current liabilities	2,476,130	2,613,189
OTHER LIABILITIES		
Lease liability, long-term	236,877	-
Total liabilities	2,713,007	2,613,189
OWNERS' EQUITY		
Membership stock	1,163,812	1,139,484
Patronage dividends retained	6,602,754	6,606,345
Retained earnings	5,036,602	4,759,048
Total owners' equity	12,803,168	12,504,877
Total liabilities and owners' equity	\$ 15,516,175	\$ 15,118,066

See accompanying notes.

ASHLAND FOOD COOPERATIVE
STATEMENTS OF INCOME
Years Ended December 31, 2022 and 2021

	<u>2022</u>		<u>2021</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Sales	\$ 31,187,307	100.00	\$ 30,846,835	100.00
Less cost of goods sold	<u>19,589,120</u>	<u>62.81</u>	<u>19,270,767</u>	<u>62.47</u>
Gross profit	11,598,187	37.19	11,576,068	37.53
Other operating revenue	<u>116,249</u>	<u>0.37</u>	<u>74,353</u>	<u>0.24</u>
Net revenue from operations	11,714,436	37.56	11,650,421	37.77
Operating expenses				
Payroll expenses	8,786,905	28.17	8,685,579	28.16
General and administrative expenses	<u>2,427,228</u>	<u>7.78</u>	<u>2,454,372</u>	<u>7.96</u>
Total operating expenses	<u>11,214,133</u>	<u>35.95</u>	<u>11,139,951</u>	<u>36.12</u>
Income from operations	500,303	1.61	510,470	1.65
Other income (expenses)				
Employee Retention Tax credit	-	-	2,114,888	6.86
Interest income	39,227	0.13	19,430	0.06
Grant income	-	-	116,385	0.38
Other income	3,371	0.01	23,656	0.08
Loss on disposal of equipment	<u>(2,093)</u>	<u>(0.01)</u>	<u>-</u>	<u>-</u>
Total other income	<u>40,505</u>	<u>0.13</u>	<u>2,274,359</u>	<u>7.38</u>
Net income before income taxes	540,808	1.74	2,784,829	9.03
Provision for income taxes	<u>145,759</u>	<u>0.47</u>	<u>(328,497)</u>	<u>(1.06)</u>
Net income	<u><u>\$ 686,567</u></u>	<u><u>2.21</u></u>	<u><u>\$ 2,456,332</u></u>	<u><u>7.97</u></u>

See accompanying notes.

ASHLAND FOOD COOPERATIVE
STATEMENTS OF OWNERS' EQUITY
Years Ended December 31, 2022 and 2021

	Membership Stock	Patronage Dividends Retained	Retained Earnings	Total Owners' Equity
Balance December 31, 2020	\$ 1,119,573	\$ 4,994,256	\$ 4,428,037	\$ 10,541,866
Stock issued	37,431	-	-	37,431
Stock redeemed	(17,520)	-	-	(17,520)
Patronage dividend	-	2,125,321	(2,125,321)	-
Patronage dividends payable	-	(509,572)	-	(509,572)
Prior patronage forfeited	-	(3,660)	-	(3,660)
Net income	-	-	2,456,332	2,456,332
Balance December 31, 2021	1,139,484	6,606,345	4,759,048	12,504,877
Stock issued	39,438	-	-	39,438
Stock redeemed	(15,110)	-	-	(15,110)
Patronage dividend	-	409,013	(409,013)	-
Patronage dividends payable	-	(409,013)	-	(409,013)
Prior patronage forfeited	-	(3,591)	-	(3,591)
Net income	-	-	686,567	686,567
Balance December 31, 2022	<u>\$ 1,163,812</u>	<u>\$ 6,602,754</u>	<u>\$ 5,036,602</u>	<u>\$ 12,803,168</u>

See accompanying notes.

ASHLAND FOOD COOPERATIVE
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 686,567	\$ 2,456,332
Adjustments to reconcile net income to net cash flows from operating activities		
Depreciation	209,384	228,205
Loss on disposal of equipment	2,093	-
Change in deferred income taxes	(199,000)	301,000
(Increase) decrease in assets		
Accrued interest receivable	(12,754)	1,816
Employee payroll advances	4,615	(3,123)
Tax credits and refunds receivable	-	(2,114,888)
Other receivables	(9,395)	18,929
Inventory	(86,802)	(6,682)
Prepaid insurance	(1,223)	(960)
Prepaid taxes	16,787	(17,217)
Deposits	(105,526)	22,209
Investment in National Co-op Grocers	(44,734)	(34,979)
Increase (decrease) in liabilities		
Accounts payable	54,120	122,658
Unredeemed gift certificates	(4,728)	413
Retirement plan contribution payable	(249)	220
Accrued payroll and payroll taxes	(29,624)	1,306
Accrued productivity bonus	53,942	29,279
Accrued profit share bonus	(93,514)	7,734
Accrued vacation and sick pay	(45,724)	(15,270)
Income taxes payable	(19,750)	(40,606)
Unclaimed patronage dividends	-	(635)
Net cash flows from operating activities	374,485	955,741
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for the purchase of property and equipment	(221,622)	(430,128)
Proceeds from loan to other cooperatives	11,257	5,858
Redemptions of certificates of deposits	3,968,510	248,000
Purchases of certificates of deposits	(4,462,152)	(251,203)
Net cash flows from investing activities	(704,007)	(427,473)

See accompanying notes.

ASHLAND FOOD COOPERATIVE
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of membership stock	39,438	37,431
Patronage dividends paid	(509,572)	(476,500)
Patronage dividends forfeited	(3,591)	(3,660)
Payments on redemption of membership stock	(15,110)	(17,520)
Net cash flows from financing activities	<u>(488,835)</u>	<u>(460,249)</u>
Net change in cash and cash equivalents	(818,357)	68,019
Cash and cash equivalents - beginning of year	<u>2,843,935</u>	<u>2,775,916</u>
Cash and cash equivalents - end of year	<u><u>\$ 2,025,578</u></u>	<u><u>\$ 2,843,935</u></u>
SUPPLEMENTAL INFORMATION		
Cash paid for income taxes	\$ 55,750	\$ 47,154
Noncash financing activities		
Patronage dividends payable	409,013	509,572
Prior patronage forfeited	3,591	3,660

See accompanying notes.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

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.

Receivables

Accounts receivable and notes receivable are stated at the amount management expects to be collected from outstanding balances. As of December 31, 2022 and 2021, management has determined based on its assessment of the collectability of specific account balances, as well as historical experience, that all amounts are fully collectible, and no allowance for doubtful amounts is necessary.

Certificates of Deposit

The Cooperative's certificates of deposits are held in multiple financial institutions and have maturities of 6 to 24 months. Maturity dates range from January 2023 to December 2025 and interest rates range from 0.05% to 4.85% 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 2022 and 2021 was \$209,384 and \$228,205, and is included in general and administrative expenses.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in National Cooperative Grocers

The equity in National Co+op 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 2022 and 2021.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Cooperative's contract liabilities from gift card sales for 2022 and 2021 were as follows:

	<u>2022</u>	<u>2021</u>
Beginning of year	\$ 142,675	\$ 142,262
End of year	137,947	142,675

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.

Leases

The Cooperative does not recognize short-term leases in the balance sheet. For these leases, The Cooperative recognizes the lease payments in the results of operations on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments is incurred. The Cooperative also does not separate nonlease components from lease components for all classes of underlying assets and instead accounts for each separate lease component and the nonlease components associated with that lease component as a single lease component.

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.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising

Advertising costs are expensed as incurred. Advertising expenses for 2022 and 2021 were \$47,358 and \$51,582.

Date of Management's Review

Management has evaluated subsequent events through March 16, 2023, the date which the financial statements were available to be issued.

Adoption of New Accounting Guidance

On February 25, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. The guidance in this Update and all subsequently issued clarifying Updates supersede the guidance in FASB Accounting Standards Codification (ASC) Topic 840, *Leases*, and creates FASB ASC Topic 842, *Leases*. The main difference between previous guidance and Topic 842 is the recognition of assets and liabilities by lessees for those leases classified as operating leases. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. Also, under Topic 842, disclosures are required by lessees and lessors to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from leases.

The Cooperative adopted the requirements of Topic 842 as of January 1, 2022, using the optional transition method that allows The Cooperative to initially apply the new guidance at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

The adoption of Topic 842 resulted in the recognition of operating lease right-of-use assets of \$285,904 and operating lease liabilities of \$285,904 as of December 31, 2022. The adoption of Topic 842 did not have a material effect on The Cooperative's results of operations, cash flows, or debt covenants.

NOTE 2 – LOAN TO OTHER COOPERATIVE

The Cooperative issued a subordinated promissory note receivable 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%.

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, 2022 and 2021.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

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 2022 and 2021 was \$179,259 and \$189,707.

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 \$100,307 and \$29,279 for 2022 and 2021.

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 \$63,708 and \$157,222 for 2022 and 2021.

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. The Cooperative was able to meet certain criteria set forth by the CARES Act, the Cooperative received complete forgiveness on July 2, 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 award.

NOTE 8 – LINE OF CREDIT

The Cooperative's \$3,000,000 revolving line of credit matured on March 1, 2024 and carried a floating interest rate of the Prime Rate set by the lender. There was no outstanding balance on the line of credit at December 31, 2022 and 2021.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

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 12,739 and 12,461 outstanding shares at December 31, 2022 and 2021.

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. Uninsured cash balances at one of these institutions totaled approximately \$1,376,000 and \$2,140,000 at December 31, 2022 and 2021.

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 76% 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 – LEASING ARRANGEMENTS

In December of 2016, the Cooperative entered into a lease for food preparation and retail space. This lease, which runs through December 2027 and requires quarterly payments of \$11,593, increases by 3% each year.

In April of 2019, the Cooperative entered into a rooftop lease which the Cooperative used to install a solar panel array. The lease term is through April 2046 and requires annual payments of \$3,600.

Additionally, the Cooperative has agreements to lease certain office equipment with lease terms expiring through 2028.

Equipment rental and leasing expense for all leases was \$80,990 and \$75,578 for 2022 and 2021.

Other information related to leases is as follows:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	\$ 80,990
ROU assets obtained in exchange for new operating lease liabilities	285,904
Weighted-average remaining lease term in years for operating leases	9.43 years
Weighted-average discount rate for operating leases	3.25%

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 11 – LEASING ARRANGEMENTS (Continued)

The maturities of lease liabilities as of December 31, 2022, are as follows:

2023	\$	61,807
2024		64,519
2025		67,192
2026		65,502
2027		65,502
Thereafter		64,800
Total undiscounted cash flows		389,322
Less: present value discount		(50,473)
Total lease liabilities	\$	338,849

NOTE 12 – PURCHASING AGREEMENT

The Cooperative has an agreement through NCG with United Natural Foods, 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, 2022 and 2021, the Cooperative had a deposit with JLF for \$41,084 and \$41,965. 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 13 – INCOME TAXES

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

	2022	2021
Current federal income tax	\$ -	\$ 24,822
Current Oregon income tax	(53,241)	(52,319)
Total current provision	(53,241)	(27,497)
Deferred income tax benefit (expense)	199,000	(301,000)
Provision for income taxes	\$ 145,759	\$ (328,497)

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 patronage dividends. In addition, there are differences related to state income taxes and nondeductible expenses.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

NOTE 13 – INCOME TAXES (Continued)

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 \$508,000 for federal purposes that does not expire and approximately \$394,000 for state purposes that does not expire.

The Cooperative's total deferred tax asset and deferred tax liability at December 31, 2022 and 2021 were as follows:

	2022	2021
Deferred tax asset	\$ 208,000	\$ 194,000
Deferred tax asset valuation allowance	-	-
Deferred tax liability	91,000	(94,000)
Net deferred tax asset	\$ 299,000	\$ 100,000

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, 2022, net income subject to members' patronage was \$2,125,321. The Board of Directors declared a patronage dividend of \$409,013 for 2022. Of the declared dividend, 100 percent will be paid in cash. The liability for cash dividends payable is \$409,013 for the year ended December 31, 2022.

For the year ended December 31, 2021, net income subject to members' patronage was \$2,125,321, due in part to the treatment of the Employee Retention Tax credit. The Board of Directors declared a patronage dividend of \$2,125,321 for 2021. Of the declared dividend, 23.98 percent will be paid in cash. The liability for cash dividends payable is \$509,572 and the retained patronage dividends is \$1,615,749 for the year ended December 31, 2021. Retained patronage dividends are reported in the owners' equity section of the balance sheet.

NOTE 15 – COVID-19 CONSIDERATIONS

As authorized under the Consolidated Appropriations Act, enacted in December 2020, the Cooperative has determined that it is eligible to receive the Employee Retention Credit (ERC), a refundable tax credit against certain employment taxes on qualified wages up to specified limits imposed by the Internal Revenue Service. The amount of the ERC for the year ended December 31, 2021, was determined to be \$2,114,888. This amount is recorded as tax credits and refunds receivable on the balance sheet as it had not been received as of December 31, 2022.

ASHLAND FOOD COOPERATIVE
SCHEDULES OF COST OF GOODS SOLD AND PAYROLL EXPENSES
Years Ended December 31, 2022 and 2021

	2022	2021
Schedules of Cost of Goods Sold		
Beginning inventory	\$ 809,508	\$ 802,826
Purchases		
Grocery	3,796,871	3,864,929
Produce	3,945,659	3,800,048
Meat	1,958,762	1,998,003
Cooler	1,986,340	1,928,151
Wellness	1,598,158	1,627,597
Deli	1,662,752	1,504,598
Bulk	1,099,322	1,023,816
Beer and wine	944,435	969,671
Bakery	940,185	847,664
Specialties	823,987	832,521
Frozen	586,148	568,540
Mercantile	159,685	193,923
Deli packaging	158,337	115,730
Delivery surcharges	22,040	8,525
Purchase discounts	(6,759)	(6,267)
Total beginning inventory and purchases	20,485,430	20,080,275
Less ending inventory	(896,310)	(809,508)
Cost of goods sold	\$ 19,589,120	\$ 19,270,767
	2022	2021
Schedules of Payroll Expenses		
Salaries and wages	\$ 6,807,370	\$ 6,951,418
Payroll taxes	602,937	529,365
Workers compensation insurance	50,267	43,142
Employee discounts	130,701	124,368
Employee benefits	1,195,630	1,037,286
Payroll expenses	\$ 8,786,905	\$ 8,685,579

ASHLAND FOOD COOPERATIVE
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Advertising and promotion	\$ 101,943	\$ 100,795
Bad debts	1,040	231
Bank and merchant credit card fees	507,925	423,191
Board of directors expense	88,927	84,237
Cash short (over)	7,958	(369)
Community grants	25,244	23,502
Community oven expense	1,177	123
Conferences and seminars	16,561	4,190
Consulting fees	58,466	57,026
Contracted services	34,495	51,276
Depreciation	209,384	228,205
Dues and subscriptions	39,502	39,918
Equipment rental and leasing	80,990	75,578
Insurance	110,643	101,386
Laundry and cleaning supplies	31,416	32,213
Legal and professional	81,351	92,881
Licenses, taxes and fees	5,978	5,698
Meals and entertainment	195	31
Membership expense	2,313	8,540
Office expense	145,076	137,993
Postage	4,256	3,127
Property taxes	54,023	53,593
Recruitment	9,581	8,864
Repairs and maintenance	115,130	88,627
Other personnel expenses	225,528	222,999
Signage	13,207	5,820
Small tools and equipment	15,219	20,772
Store supplies	265,550	407,394
Telephone	17,384	17,124
Trade show expense	2,316	-
Travel expense	2,169	1,127
Utilities	152,281	158,280
General and administrative expenses	<u>\$ 2,427,228</u>	<u>\$ 2,454,372</u>