



FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION

December 31, 2023 (Reviewed) and 2022 (Audited)

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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, 2023, and the related statements of income, owner's 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 an 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.

We are required to be independent of Ashland Food Cooperative and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our review.

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.

Report on 2022 Financial Statements

The 2022 financial statements were audited by us and we expressed an unmodified opinion on them in our report dated March 16, 2023. We have not performed any auditing procedures since that date.

Supplementary Information

Our review was conducted for the purpose of forming an opinion on the financial statements as a whole. The 2023 and 2022 Schedules of Cost of Goods Sold and Payroll Expenses and Schedules 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 review procedures applied in the review 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

Wegner CPAs, LLP
Madison, Wisconsin
April 19, 2024

ASHLAND FOOD COOPERATIVE
BALANCE SHEETS
December 31, 2023 (Reviewed) and 2022 (Audited)

	<u>2023</u>	<u>2022</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,614,021	\$ 2,025,578
Certificates of deposit	4,724,516	3,741,056
Accrued interest receivable	39,681	13,715
Employee payroll advances	10,200	5,050
Tax credits and refunds receivable	-	2,114,888
Other receivables	17,804	26,872
Inventory	852,147	896,310
Prepaid insurance	20,732	14,115
Prepaid taxes	55,942	27,195
Total current assets	<u>7,335,043</u>	<u>8,864,779</u>
PROPERTY AND EQUIPMENT		
Land	2,131,800	2,131,800
Building and improvements	4,045,603	3,987,705
Equipment	1,727,286	1,716,943
Property and equipment	7,904,689	7,836,448
Accumulated depreciation	<u>(3,580,349)</u>	<u>(3,388,533)</u>
Property and equipment - net	4,324,340	4,447,915
OTHER ASSETS		
Certificates of deposit	3,457,931	977,282
Deposits	164,495	206,104
Loan to other cooperative	54,715	60,932
Investment in National Co+op Grocers	389,704	374,259
Deferred income tax assets	-	299,000
Operating lease right-of-use asset	261,955	285,904
Total other assets	<u>4,328,800</u>	<u>2,203,481</u>
Total assets	<u><u>\$ 15,988,183</u></u>	<u><u>\$ 15,516,175</u></u>

See accompanying notes and independent accountant's review report.

ASHLAND FOOD COOPERATIVE
BALANCE SHEETS
December 31, 2023 (Reviewed) and 2022 (Audited)

	<u>2023</u>	<u>2022</u>
LIABILITIES AND OWNERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 980,935	\$ 904,035
Unredeemed gift certificates	135,427	137,947
Retirement plan contribution payable	3,136	-
Accrued payroll and payroll taxes	345,131	309,534
Accrued productivity bonus	1,400	83,221
Accrued profit share bonus	120,787	63,708
Accrued vacation and sick pay	393,708	361,895
Income taxes payable	39,065	7,750
Accrued medical claims liability	150,000	150,000
Patronage dividends payable	692,055	409,013
Deferred income tax liabilities	26,000	-
Lease liability, current	<u>54,956</u>	<u>49,027</u>
Total current liabilities	2,942,600	2,476,130
OTHER LIABILITIES		
Lease liability, long-term	<u>206,999</u>	<u>236,877</u>
Total liabilities	3,149,599	2,713,007
OWNERS' EQUITY		
Membership stock	1,196,179	1,163,812
Patronage dividends retained	6,772,674	6,602,754
Retained earnings	<u>4,869,731</u>	<u>5,036,602</u>
Total owners' equity	<u>12,838,584</u>	<u>12,803,168</u>
Total liabilities and owners' equity	<u><u>\$ 15,988,183</u></u>	<u><u>\$ 15,516,175</u></u>

See accompanying notes and independent accountant's review report.

ASHLAND FOOD COOPERATIVE
STATEMENTS OF INCOME
Years Ended December 31, 2023 (Reviewed) and 2022 (Audited)

	2023		2022	
	Amount	Percent	Amount	Percent
REVENUE				
Sales	\$ 32,466,951	100.00	\$ 31,187,307	100.00
Less cost of goods sold	<u>20,263,502</u>	<u>62.41</u>	<u>19,589,120</u>	<u>62.81</u>
Gross profit	12,203,449	37.59	11,598,187	37.19
Other operating revenue	<u>61,411</u>	<u>0.19</u>	<u>116,249</u>	<u>0.37</u>
Net revenue from operations	12,264,860	37.78	11,714,436	37.56
OPERATING EXPENSES				
Payroll expenses	8,803,822	27.12	8,786,905	28.17
General and administrative expenses	<u>2,687,095</u>	<u>8.28</u>	<u>2,427,228</u>	<u>7.78</u>
Total operating expenses	<u>11,490,917</u>	<u>35.40</u>	<u>11,214,133</u>	<u>35.95</u>
Income from operations	773,943	2.38	500,303	1.61
OTHER INCOME (EXPENSES)				
Interest income	348,275	1.07	39,227	0.13
Other income	9,202	0.03	3,371	0.01
Loss on disposal of equipment	<u>(6,286)</u>	<u>(0.02)</u>	<u>(2,093)</u>	<u>(0.01)</u>
Total other income	<u>351,191</u>	<u>1.08</u>	<u>40,505</u>	<u>0.13</u>
Net income before income taxes	1,125,134	3.46	540,808	1.74
Provision for income taxes	<u>(426,937)</u>	<u>(1.31)</u>	<u>145,759</u>	<u>0.47</u>
Net income	<u><u>\$ 698,197</u></u>	<u><u>2.15</u></u>	<u><u>\$ 686,567</u></u>	<u><u>2.21</u></u>

See accompanying notes and independent accountant's review report.

ASHLAND FOOD COOPERATIVE
STATEMENTS OF OWNERS' EQUITY
Years Ended December 31, 2023 (Reviewed) and 2022 (Audited)

	Membership Stock	Patronage Dividends Retained	Retained Earnings	Total Owners' Equity
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	1,163,812	6,602,754	5,036,602	12,803,168
Stock issued	39,781	-	-	39,781
Stock redeemed	(7,414)	-	-	(7,414)
Patronage dividend	-	865,068	(865,068)	-
Patronage dividends payable	-	(692,055)	-	(692,055)
Prior patronage forfeited	-	(3,093)	-	(3,093)
Net income	-	-	698,197	698,197
Balance December 31, 2023	<u>\$ 1,196,179</u>	<u>\$ 6,772,674</u>	<u>\$ 4,869,731</u>	<u>\$ 12,838,584</u>

See accompanying notes and independent accountant's review report.

ASHLAND FOOD COOPERATIVE
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2023 (Reviewed) and 2022 (Audited)

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 698,197	\$ 686,567
Adjustments to reconcile net income to net cash flows from operating activities		
Depreciation	206,834	209,384
Loss on disposal of equipment	6,286	2,093
Change in deferred income taxes	325,000	(199,000)
Amortization of operating lease right-of-use asset	52,772	48,065
(Increase) decrease in assets		
Accrued interest receivable	(25,966)	(12,754)
Employee payroll advances	(5,150)	4,615
Tax credits and refunds receivable	2,114,888	-
Other receivables	9,068	(9,395)
Inventory	44,163	(86,802)
Prepaid insurance	(6,617)	(1,223)
Prepaid taxes	(28,747)	16,787
Deposits	41,609	(105,526)
Investment in National Co-op Grocers	(15,445)	(44,734)
Increase (decrease) in liabilities		
Accounts payable	76,900	54,120
Unredeemed gift certificates	(2,520)	(4,728)
Retirement plan contribution payable	3,136	(249)
Accrued payroll and payroll taxes	35,597	(29,624)
Accrued productivity bonus	(81,821)	53,942
Accrued profit share bonus	57,079	(93,514)
Accrued vacation and sick pay	31,813	(45,724)
Income taxes payable	31,315	(19,750)
Operating lease liability	(52,772)	(48,065)
Net cash flows from operating activities	3,515,619	374,485
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for the purchase of property and equipment	(89,545)	(221,622)
Proceeds from loan to other cooperatives	6,217	11,257
Redemptions of certificates of deposits	3,741,525	3,968,510
Purchases of certificates of deposits	(7,205,634)	(4,462,152)
Net cash flows from investing activities	(3,547,437)	(704,007)

See accompanying notes and independent accountant's review report.

ASHLAND FOOD COOPERATIVE
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2023 (Reviewed) and 2022 (Audited)

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of membership stock	39,781	39,438
Patronage dividends paid	(412,106)	(513,163)
Payments on redemption of membership stock	<u>(7,414)</u>	<u>(15,110)</u>
Net cash flows from financing activities	<u>(379,739)</u>	<u>(488,835)</u>
Net change in cash and cash equivalents	(411,557)	(818,357)
Cash and cash equivalents at beginning of year	<u>2,025,578</u>	<u>2,843,935</u>
Cash and cash equivalents at end of year	<u>\$ 1,614,021</u>	<u>\$ 2,025,578</u>
SUPPLEMENTAL INFORMATION		
Cash paid for income taxes	\$ 100,288	\$ 55,750
Noncash financing activities		
Patronage dividends payable	692,055	409,013

See accompanying notes and independent accountant's review report.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 (Reviewed) and 2022 (Audited)

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, 2023 and 2022, 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 2024 to December 2025 and interest rates range from 3.15% to 5.80% 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 2023 and 2022 was \$206,834 and \$209,384, respectively, and is included in general and administrative expenses.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 (Reviewed) and 2022 (Audited)

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 2023 and 2022.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 (Reviewed) and 2022 (Audited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Cooperative’s contract liabilities from gift card sales for 2023 and 2022 were as follows:

	2023	2022
Beginning of year	\$ 137,947	\$ 142,675
End of year	135,427	137,947

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, 2023 (Reviewed) and 2022 (Audited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for 2023 and 2022 were \$35,391 and \$47,358, respectively.

Date of Management’s Review

Management has evaluated subsequent events through April 19, 2024, the date which the financial statements were available to be issued.

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 \$62,000 annually per covered member and dependents. Additionally, there is a monthly maximum stop-loss limit based on the number of enrolled participants. The Cooperative has accrued an estimated liability of \$150,000 for unsubmitted claims as of December 31, 2023 and 2022.

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 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 2023 and 2022 was \$176,081 and \$179,259, respectively.

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 \$35,603 and \$100,307 for 2023 and 2022, respectively.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 (Reviewed) and 2022 (Audited)

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 \$120,787 and \$63,708 for 2023 and 2022, respectively.

NOTE 7 – CONTINGENCY

In May 2020, the Cooperative received a \$1,513,700 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. On July 2, 2021 The Cooperative was able to meet certain criteria set forth by the CARES Act, and received complete forgiveness of the loan.

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.

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 has been fully received as of December 31, 2023.

NOTE 8 – LINE OF CREDIT

The Cooperative's \$1,000,000 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, 2023 and 2022, respectively.

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 13,132 and 12,739 outstanding shares at December 31, 2023 and 2022, respectively.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 (Reviewed) and 2022 (Audited)

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 \$721,000 and \$1,376,000 at December 31, 2023 and 2022, respectively.

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 September 1, 2023, and remains in effect until a new contract is ratified or both parties consent to terminate the agreement.

NOTE 11 – LEASES

The Cooperative has a lease for food preparation and retail space. This lease runs through December 2027 and requires quarterly payments of \$11,593 and increases by 3% each year.

The Cooperative has a rooftop lease which the Cooperative used to install a solar panel array. This lease runs through April 2046 and requires annual payments of \$3,600.

The Cooperative has a lease for equipment. This lease runs through May 2028 and requires monthly payments of \$542.

Lease expenses at December 31 were as follows:

	2023	2022
Operating lease expense	\$ 59,295	\$ 51,362
Short-term lease expense	30,063	29,628

Other information related to leases is as follows:

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 55,154	\$ 49,971
ROU assets obtained in exchange for new operating lease liabilities	28,823	285,904
Weighted-average remaining lease term in years for operating leases	8.58 years	9.43 years
Weighted-average discount rate for operating leases	3.41%	3.25%

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 (Reviewed) and 2022 (Audited)

NOTE 11 – LEASING ARRANGEMENTS (continued)

The maturities of lease liabilities as of December 31, 2023, are as follows:

2024	\$	70,038
2025		71,147
2026		70,467
2027		71,987
2028		7,924
Thereafter		<u>61,200</u>
Total undiscounted cash flows		352,763
Less: present value discount		<u>(51,767)</u>
Total lease liabilities	\$	<u><u>300,996</u></u>

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, 2023 and 2022, the Cooperative had a deposit with JLF for \$41,630 and \$41,084, respectively. 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:

	<u>2023</u>	<u>2022</u>
Current federal income tax	\$ (43,336)	\$ -
Current Oregon income tax	<u>(58,601)</u>	<u>(53,241)</u>
Total current provision	(101,937)	(53,241)
Deferred income tax benefit (expense)	<u>(325,000)</u>	<u>199,000</u>
Provision for income taxes	<u><u>\$ (426,937)</u></u>	<u><u>\$ 145,759</u></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 patronage dividends. In addition, there are differences related to state income taxes and nondeductible expenses.

ASHLAND FOOD COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
December 31, 2023 (Reviewed) and 2022 (Audited)

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 \$480,000 for federal purposes that does not expire and approximately \$368,000 for state purposes that does not expire.

The Cooperative’s total deferred tax asset and deferred tax liability at December 31, 2023 and 2022 were as follows:

	2023	2022
Deferred tax asset	\$ 75,000	\$ 208,000
Deferred tax asset valuation allowance	-	-
Deferred tax liability	(101,000)	91,000
Net deferred tax asset (liability)	\$ (26,000)	\$ 299,000

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, 2023, net income subject to members’ patronage was \$1,127,360. The Board of Directors declared a patronage dividend of \$865,068 for 2023. Of the declared dividend, 80 percent will be paid in cash. The liability for cash dividends payable is \$692,055 for the year ended December 31, 2023.

For the year ended December 31, 2022, 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 \$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.

ASHLAND FOOD COOPERATIVE
SCHEDULES OF COST OF GOODS SOLD AND PAYROLL EXPENSES
Years Ended December 31, 2023 (Reviewed) and 2022 (Audited)

	<u>2023</u>	<u>2022</u>
Schedules of Cost of Goods Sold		
Beginning inventory	\$ 896,310	\$ 809,508
Purchases		
Grocery	3,944,458	3,796,871
Produce	3,926,103	3,945,659
Cooler	2,095,930	1,986,340
Meat	2,041,941	1,958,762
Deli	1,855,880	1,662,752
Wellness	1,622,702	1,598,158
Bulk	1,090,397	1,099,322
Beer and wine	974,144	944,435
Bakery	953,980	940,185
Specialties	786,940	823,987
Frozen	611,660	586,148
Deli packaging	154,891	158,337
Mercantile	153,659	159,685
Delivery surcharges	13,240	22,040
Purchase discounts	<u>(6,586)</u>	<u>(6,759)</u>
Total beginning inventory and purchases	21,115,649	20,485,430
Less ending inventory	<u>(852,147)</u>	<u>(896,310)</u>
Cost of goods sold	<u>\$ 20,263,502</u>	<u>\$ 19,589,120</u>
	<u>2023</u>	<u>2022</u>
Schedules of Payroll Expenses		
Salaries and wages	\$ 6,985,696	\$ 6,807,370
Employee benefits	1,038,227	1,195,630
Payroll taxes	616,472	602,937
Employee discounts	127,909	130,701
Workers compensation insurance	<u>35,518</u>	<u>50,267</u>
Payroll expenses	<u>\$ 8,803,822</u>	<u>\$ 8,786,905</u>

ASHLAND FOOD COOPERATIVE
SCHEDULES OF GENERAL AND ADMINISTRATIVE EXPENSES
Years Ended December 31, 2023 (Reviewed) and 2022 (Audited)

	<u>2023</u>	<u>2022</u>
Bank and merchant credit card fees	\$ 465,485	\$ 507,925
Store supplies	253,420	265,550
Consulting fees	224,365	58,466
Other personnel expenses	222,711	225,528
Depreciation	206,834	209,384
Utilities	167,255	152,281
Office expense	165,694	145,076
Insurance	131,071	110,643
Advertising and promotion	117,106	101,943
Repairs and maintenance	114,257	115,130
Board of directors expense	107,362	88,927
Equipment rental and leasing	89,358	80,990
Legal and professional	88,836	81,351
Property taxes	55,257	54,023
Recruitment	49,830	9,581
Contracted services	47,610	34,495
Dues and subscriptions	33,808	39,502
Laundry and cleaning supplies	31,396	31,416
Community grants	25,450	25,244
Small tools and equipment	19,485	15,219
Conferences and seminars	17,887	16,561
Telephone	16,114	17,384
Signage	10,462	13,207
Community oven expense	7,669	1,177
Licenses, taxes and fees	5,772	5,978
Membership expense	3,482	2,313
Postage	3,013	4,256
Trade show expense	2,927	2,316
Meals and entertainment	1,390	195
Travel expense	1,061	2,169
Cash short (over)	800	7,958
Bad debts (recovery)	(72)	1,040
General and administrative expenses	<u>\$ 2,687,095</u>	<u>\$ 2,427,228</u>