



Ashland Food Cooperative

2007 Annual Report

Message from the Board of Directors

by *Danielle Amarotico, Vice President*

2007 was another great year for AFC! For the second year in a row, *Oregon Business Magazine* named the Co-op as one of the “100 Best Companies to Work for in Oregon.” This year our ranking improved. We were #25 among the 50 best small companies to work for in the state, and #35 in the top 100. AFC also obtained organic certification for the entire store from the Oregon Tilth Certified Organic program. There are other certified organic retailers in the nation, but we were the first one for Oregon Tilth. This prestigious certification is regarded as the internationally recognized symbol of organic integrity.

Beginning in May, the popular “Dinner with the Directors” quarterly series began, giving owners an opportunity to have their ideas heard by board members and management. Each quarter, 10 owners have the opportunity to converse over a lovely meal. In June, more than 225 owners attended the festive Owner Picnic and Annual Meeting at Emigrant Lake, where AFC celebrated 35 years of service! Everyone had a great time despite the unusually cool weather. In the fall, AFC undertook a major deli remodel. Not only is the new set up more user friendly, the deli staff is now able to serve more customers in a shorter amount of time. In the winter, the Social Responsibility committee focused their vision on

sustainability. Now we’ll be able to track and enhance our future sustainability efforts.

The board thanks our outstanding staff for continually “delighting shoppers.” We also thank our GM Richard Katz and his team of managers for their commitment to continual store improvement, assuring owners and customers alike that AFC will remain one of the top co-ops in the nation.

And of course, we thank all of you, our owners, for supporting AFC and making it a true cornerstone of our community!

Report from the General Manager

by *Richard Katz*

This year we focused on making refinements and improvements designed to continue to effectively serve our growing number of shoppers. It was no surprise that sales growth for 2007 at 9.5% was in single-digits rather than double-digits for the first time in quite awhile. The fact is that our success in attracting customers and owners over many years combined with our limited capacity is making it more difficult to grow. Perhaps that’s not such a bad thing, although we would all love to have more parking and more room inside our store for customers and our staff of over 150 hard working people. Finding and following strategies to accommodate growth has been a goal we’ve been engaged in for many years. Our strategic planning

process identified obtaining neighboring property as an area to focus on to meet our immediate needs. We’ve hit some roadblocks in this pursuit, but there are other possibilities that we continue to investigate. In the absence of obtaining more space, we’ve worked hard to use our current facility as effectively as we can to ensure a great shopping experience for you. I will mention some of our efforts in this regard.

Perhaps the most significant improvement in 2007 was the remodel and makeover of our deli in October. The conversion to self-service and the addition of a front kitchen area has enabled this fast growing department to continue to grow and improve. In recent years, the deli has been our fastest growing department with sales growth over 20% for 2007. There have been other simple improvements that have helped delight shoppers. Smaller more comfortable deli chairs and a deli bench have improved our eating area, allowing us to add more seating. The more maneuverable green shopping carts have become a hit because they turn on a dime and take up less space in the aisles.

We take our Vision and Mission seriously and endeavor to keep a strong connection with you, our owners. Our terrific staff always has the customer perspective in mind. It gives us satisfaction to offer you a delightful shopping experience. Our board, employees, and I are very appreciative of the incredible support we receive from our owners and our community. Thank you for making our work a joyful experience that we can take pride in.



Report from the Board Treasurer

by Guy Nutter

Throughout 2007 Ashland Food Co-op (AFC) continued its excellent financial performance. Sales for 2007 exceeded \$20 million, making us one of the largest grossing natural food co-ops in the entire United States. Our sales of \$20,719,917 were a 9.5% increase over 2006, which were \$18,917,234. All of this is especially significant when we look at the size of our community.

Patronage Refunds Retained for Future Growth

The Board of Directors understands that as our sales increase, and our monthly customer counts continue to grow, *we* will also need to grow in order to meet our commitment to provide our owners with a satisfying shopping experience. If circumstances arise for the right growth opportunity, the Co-op needs to be in a position to act quickly. At the same time, the Board of Directors understands the desirability of avoiding debt. As we all remember, we paid off our mortgage 13 years early, and we are now debt free.

The Co-op was able to complete a beautiful remodel of our deli last October for about \$200,000 without incurring any debt. This was accomplished by using patronage refund retained from prior years. The Board of Directors and its

Finance Committee consider the long-term needs of the Co-op each year when we decide how much of the patronage refund to retain for the needs of the Co-op, and how much to distribute to owners in a patronage refund check.

As a result of your support, our sales, and therefore our earnings, have put us in a position where the Board of Directors has decided that the patronage refund to be distributed to owners this year will be 60%. The 40% being retained will continue to strengthen our financial position to take advantage of any growth opportunities. It is your loyalty and support that have made this possible.

Owner Benefits

As we all know, a \$100 investment is required to become an AFC owner. The

following chart displays the approximate average net cash benefits received by you, as an owner, if you spend approximately \$3000 at the Co-op in each of the past five years.

As you will note, this year we were able to increase both the upfront benefits and the patronage refund distributed to owners by check. Again, this was only possible because of you, our owners, and your incredible support and patronage.

Thank You

As Treasurer and Finance Committee Chairperson, I want to say what an incredible job our manager and the staff at the Co-op have done, and offer my heartfelt thanks to them for going "above and beyond." I also want to thank all of our owners for making our Co-op what it is "one of the great Co-ops in the country."

OWNER BENEFITS (for annual purchases of \$3,000)

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---------------------------|--------------|--------------|--------------|--------------|-------------|
| Coupon Benefit | \$30 | \$32 | \$41 | \$37 | \$37 |
| 10% Discount | \$20 | \$16 | \$9 | \$9 | \$11 |
| Other Benefits* | \$1 | \$1 | \$1 | \$1 | \$1 |
| Up Front Benefits Total | \$51 | \$49 | \$51 | \$47 | \$49 |
| Patronage Refund Sent | \$56 | \$55 | \$53 | \$53 | \$33 |
| Total Cash Benefit | \$107 | \$104 | \$104 | \$100 | \$82 |

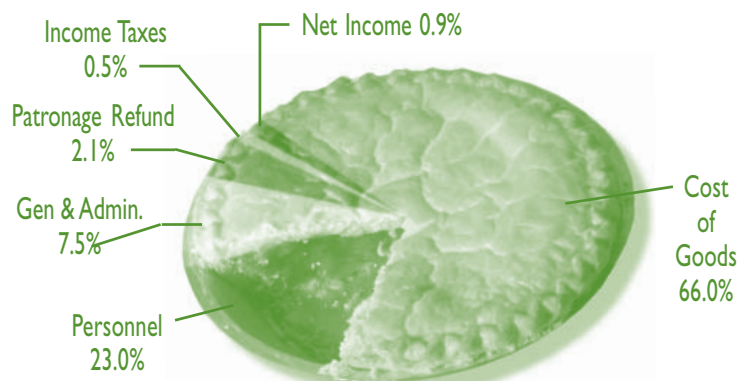
* Other benefits include coupon booklets and class discounts.

2007 Financial Report to Owners

Presented by Christina Oliver, Financial Manager

The year 2007 was our fifth as a cooperative. We had almost 700 new owners join, and ended the year with 5,278 owners and over 66% of total purchases made by owners. The percentage of sales to owners continues to rise as people who shop here easily see the many benefits of being an owner of the Ashland Food Cooperative. One of the largest benefits is the annual patronage refund check which you should receive soon,

WHERE DID THE MONEY GO IN 2007?



but more about that in a minute.

As you can see from our income statement, total sales before discounts for 2007 were \$20,719,917; up 9.5% over 2006 which is very strong for anyone in the retail grocery business. Our gross margin was up slightly over last year mostly due to the incredible growth in our Deli, and, at 34%, is still one of the very lowest in the food co-op sector. Wages and benefits were up slightly to 22.5%, reflecting a full year at the new labor cap set in place by the Board at the beginning of 2007, but our labor expense is also one of the lowest in our industry.

The net income earned on owner purchases for 2007 was \$432,441. This amount was calculated by our CPAs to be the maximum patronage refund allocation allowed by the IRS, and it's the largest patronage refund we've ever had. This is 3.14% of about \$13.7 million in sales to owners. Since the Board has decided to retain 40% of this patronage refund allocation for future capital needs, 60% will be the actual amount distributed. Each owner will receive a check equal to approximately 1.88% of their purchases.

Since we currently have no long-term debt, the funds that are not immediately necessary for operating the business are being invested in a variety of low-risk investments with the Federal government and highly-rated banks. These investments, including cash equivalents, short- and long-term investments, grew by over \$250,000 in 2007 to almost \$1.3 million. Cash equivalents are any investments with a term of three months or less. The average rate of return on all our investments in 2007 was 5.04%.

Ashland Food Co-op is indeed in a strong financial position to be able to give back to owners a healthy patronage refund, while at the same time prudently saving for capital projects that will relieve the pressure of constant growth in a facility that is already at full capacity. We are trying to minimize the need for indebtedness for the projects we're planning, as well as for the ones that may open up in the future. As we endeavor to bring you the excellent service you've come to expect in a store that just keeps getting busier and busier, we thank you for your support and understanding.

ASHLAND FOOD COOPERATIVE

COMPARATIVE BALANCE SHEET

| | <u>12/31/07</u> | <u>12/31/06</u> |
|---------------------------------------|------------------|------------------|
| ASSETS | | |
| Cash | 525,140 | 502,733 |
| Cash Equivalents | 594,675 | 642,015 |
| Short-term Investments | 595,000 | 297,746 |
| Other Current Assets | 187,426 | 158,224 |
| Inventory | 488,559 | 449,055 |
| Total Current Assets | 2,390,800 | 2,049,773 |
| Long-term Investments | 105,257 | 101,687 |
| Fixed Assets | 2,025,671 | 1,919,395 |
| Total Assets | 4,521,728 | 4,070,855 |
| LIABILITIES & EQUITY | | |
| Accounts Payable | 345,223 | 386,266 |
| Patronage Refund Payable | 259,465 | 223,738 |
| Other Current Liabilities | 646,019 | 667,352 |
| Total Current Liabilities | 1,250,707 | 1,277,356 |
| Long-term Liabilities | 96,942 | 75,947 |
| Total Liabilities | 1,347,649 | 1,353,303 |
| Retained Patronage Refund | 512,552 | 339,849 |
| Retained Earnings | 1,945,165 | 1,841,655 |
| Other Equity | 512,554 | 432,538 |
| Net Income | 203,809 | 103,511 |
| Total Equity | 3,174,080 | 2,717,552 |
| Total Liabilities & Equity | 4,521,729 | 4,070,855 |

ASHLAND FOOD COOPERATIVE

INCOME STATEMENT

| | <u>2007</u> | <u>%</u> | <u>2006</u> | <u>%</u> |
|-----------------------------------|------------------|---------------|------------------|---------------|
| Sales | 20,719,917 | 100.00% | 18,917,234 | 100.00% |
| Cost of goods sold | 13,669,852 | 65.97% | 12,623,246 | 66.73% |
| Gross Margin | 7,050,065 | 34.03% | 6,293,988 | 33.27% |
| Operating Expenses | | | | |
| Wages & Benefits | 4,662,336 | 22.50% | 4,209,076 | 22.25% |
| Profit-sharing | 103,600 | 0.50% | 94,587 | 0.50% |
| Occupancy | 302,421 | 1.46% | 112,156 | 0.59% |
| Depreciation | 151,037 | 0.73% | 153,722 | 0.81% |
| Operating | 454,827 | 2.20% | 519,662 | 2.75% |
| Administrative | 169,106 | 0.82% | 149,444 | 0.79% |
| Governance | 78,003 | 0.38% | 63,572 | 0.34% |
| Member Sales Discounts | 255,811 | 1.23% | 220,564 | 1.17% |
| Promotional | 194,562 | 0.94% | 216,577 | 1.14% |
| Other expenses (income) | (51,443) | (0.25%) | (53,937) | (0.29%) |
| Income before PR and taxes | 729,805 | 3.52% | 608,564 | 3.22% |
| Patronage Refund | 432,441 | 2.09% | 406,268 | 2.15% |
| Taxable Income | 297,364 | 1.43% | 202,296 | 1.07% |
| Income Tax Expense | 93,555 | 0.45% | 98,785 | 0.52% |
| Net Income | 203,809 | 0.98% | 103,511 | 0.55% |

Annual Social Responsibility Report

by Maria Katsantones, Social Responsibility Committee Staff Representative

With a history of operating in ways that benefit the business and its employees, the greater community, the economy, and the environment, practicing social responsibility remains a top priority for Ashland Food Co-op. Systems of setting priorities based on their social implications, as well as structured, integrated approaches to financial and social action are in place and moving forward with the changing times.

In 2007 the Board of Directors identified the need for revitalization around concepts pertaining to social responsibility through-

out the AFC organization. In turn they set the following three social responsibility strategic goals for 2007 and 2008:

1. Prioritizing the formation of an AFC Social Responsibility Committee.
2. Increasing the scope of AFC's social responsibility metrics to include new sustainability measures.
3. Increasing education and awareness about sustainable practices.

The seven-person Social Responsibility Committee (SRC) was formed in January 2008. The committee quickly verified the need to expand AFC's social responsibility umbrella to include more sustainability

practices throughout the organization. The SRC is currently considering objectives and frameworks for a successful sustainability program. Look for the SRC quarterly meeting minutes on the AFC website.

Joyfully Working Together

Employees

For the second consecutive year *Oregon Business Magazine* named Ashland Food



Co-op as one of the 100 Best Companies to Work for in Oregon, ranking AFC #25 of the top 50 small businesses to work for in 2007. The rating was awarded after AFC staff submitted a survey, revealing that they experienced improve-

ments in the areas of: benefits and compensation, work environment, decision making and trust, performance management, and career development and learning.

Ashland Food Co-op remained a leader in employee compensation in Southern Oregon. While the state of Oregon's minimum wage was \$7.95 per hour, AFC's lowest entry rate was \$8.50 per hour. Hourly/non-management employees earned an average wage of \$11.28 (excluding bonuses). Newly hired employees received their in-store 15% discounts immediately, as is the tradition at AFC. New employees became eligible for various benefit programs after three months,

including healthcare, vacation and a 401k retirement savings plan. After six months employees were eligible for a pay increase. After one year of employment, employees were rewarded with quarterly productivity bonuses, and an annual profit sharing bonus. Additionally, after one year, AFC matched up to 5% of employees' earnings towards their 401k retirement savings plan.

AFC strives to promote current staff into open positions before hiring a new employee, and last year 14 employees were promoted. Free bike repair and continuing education were available to all staff at various times, and the staff continued to have internal support from an elected staff council throughout the year. Once the eligibility threshold is met, benefits are distributed equally to all employees.

AFC's Vision...

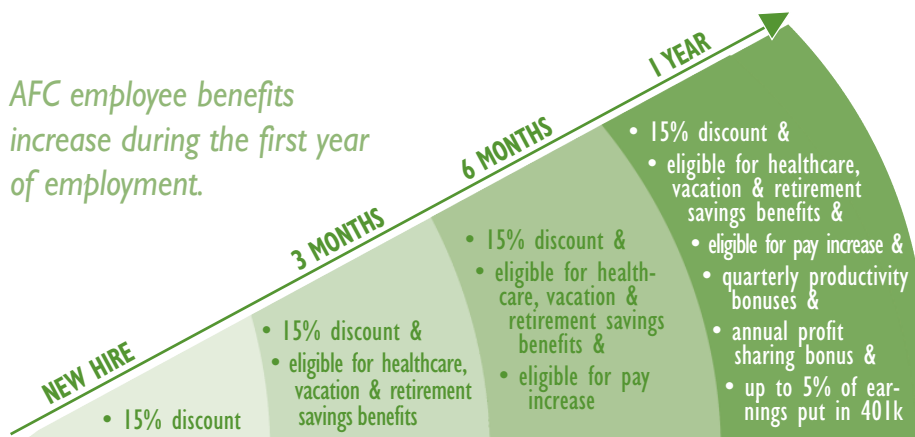
Joyfully working together: delighting shoppers, enhancing health and enriching community.

Delighting Shoppers

One of the greatest overall achievements for AFC in 2007 was obtaining organic certification from Oregon Tilth for the entire store. Oregon Tilth Certified Organic (OTCO) is an internationally recognized symbol of organic integrity. Organic certification ensures that the agreed upon conventions of organic agricultural systems are being practiced by growers, and all the people who handle and process organic food, feed, and fiber on its journey to the consumer. OTCO provides a system that combines strict production standards, on-site inspections, and legally binding contracts to protect the producers and buyers of organic products.



AFC employee benefits increase during the first year of employment.



Basic pricing items were added throughout the store, particularly in the supplements department. Throughout the year shoppers spent \$1,924,729 on Basic Pricing items, (9.3% of overall sales) compared to \$1,814,942 in 2006.

Shopper's concerns for the environment were addressed in December when a survey was sent to members asking how they felt about a charge for plastic and paper bags. After 70% of the respondents favored a bag charge, the "Year of the Bag" was set in motion for 2008.

Enhancing Health

An outstanding achievement in 2007 was AFC's endorsement of integrating healthier foods into the cafeterias at Ashland schools. AFC helped launch a pilot program at Walker School to introduce whole food meals to Ashland school children.

The Community Oven program offered 62 culinary classes in 2007, where 464 participants enjoyed a variety of whole foods cooking classes, including two-weeks of culinary camps for local youth. Throughout the year the Outreach Team provided in-store tours and whole foods education to school groups ranging from local Kindergarten classes to Southern Oregon University students.



AFC's in-store demo program expanded in 2007 with over 150 Meal Solution demonstrations, offering shoppers cooking ideas focused on seasonal whole foods.

New to the Co-op's supplement department in 2007 was the "Doctor in the Aisle" program. Dr. Geoff Houghton visited the AFC Supplements Department 18 times throughout the year to provide shoppers a better understanding of the uses of vitamins and supplements.

Enriching Community

Community donations:

- Local non-profit organizations received community grant awards totaling \$36,100. A list of recipients is available on the AFC website.
- More than 500 local organizations received in-kind contributions and fund-raising gift certificates.
- The Ashland Schools Foundation received \$520 through the Scan 4 Our Schools program. AFC matched that amount bringing the total contribution to \$1040.

Sponsorship of community events:

- The THRIVE Eat Local Week and Harvest Dinner
- Speaking engagement for author and educator, Frances Moore Lappe

- Speaking engagement for GMO expert, Ken Roseboro
- The Ashland Independent Film Festival
- The Rogue Valley Earth Day Celebration

Community building opportunities about local food:

- The 2007 Farm Tour
- The Chili Fiesta
- Harvest Festival & Healthy Snack Day

Offering local products is an important way AFC helps to support the community. Local items consist of two types of products: products that are grown locally, and products that are manufactured locally. In September, over 120 "local" indicators (radish signs) were posted near items in the store that were grown or manufactured within 100 miles of Ashland. The signs helped promote local items, and gave shoppers a choice about their purchases.



As in years past, AFC purchased local items in two ways in 2007: 1) directly from farmers and manufactures, and 2) through distributors. The produce and meat departments each purchased over \$350,000 worth of product directly from local* farmers in 2007. The Grocery, Specialties, Supplements, Deli, and Bulk departments spent over \$1,000,000 on direct purchases of locally produced dairy products, wines, baked goods and other non-food items. Local vendors were also supported through regional distributors.

There are several regional distributors from which AFC receives products. Two distributors deliver a very large percentage of the goods, and are noted here because of their longtime partnerships with AFC, and for their impressive efforts towards sustainability: United Natural Foods and The Organically Grown Company.

*This analysis of "local" includes the Rogue Valley, Roseburg, Eugene, Klamath Falls, and northern Siskiyou County.



Martin Family Ranch hens enjoy grazing in the pasture.



Providing local products is a priority at the Co-op.

United Natural Foods Inc (UNFI)

In 2007 UNFI, AFC's primary grocery distributor, committed to environmental stewardship by significantly reducing their carbon footprint and identifying the origin of ingredients they distribute.

To learn more about UNFI's sustainability practices, visit their website: www.unfi.com.



Organically Grown Company (OGC)

Organically Grown Company, an organic produce distributor, leads sustainability efforts



ORGANICALLY GROWN CO.

in the Pacific Northwest natural foods industry. In 2007 OGC increased their focus on achieving carbon neutrality, eliminating fossil fuel, eliminating solid waste, and supporting on-farm sustainability. To learn more about OGC's sustainability practices, visit their website: www.organicgrown.com.

Sustainability Practices Added in 2007

- In August a 45 panel, 7.65 kw, solar system was installed on the roof of the store. The electricity generated



Solar panels basking in the sunshine.

from the system offset a small portion of AFC's energy use by generating clean renewable energy that was added back into the grid.

- Early in 2007 the store switched to plant based, compostable utensils in the deli; a significant improvement over the use of plastic utensils.
- Throughout the year, the store continued to support the production and development of renewable energy with an ongoing investment of Green Tags from the Bonneville Environmental Foundation, offsetting 15% of the store's energy use.

In 2007 AFC once again successfully met the needs of the owners and all shoppers; provided a stable work environment for a growing staff; extended educational and enrichment opportunities into the community; offered customers a full selection of wholesome, organic, local, fair trade, environmentally sensitive and socially responsible products; and maintained strong partnerships with leaders in the natural food's industry.

Thank you for your interest in AFC's 2007 social responsibility highlights. Feel free to visit the AFC website and offer comments or suggestions about issues pertaining to social responsibility and sustainability.