

ANNUAL REPORT

2013

BERKSHIRE

C O

O P

MARKET



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**FOR MORE INFORMATION ON THE CO-OP
WWW.BERKSHIRE.COOP**

OUR ENDS

The Berkshire Cooperative Association cultivates a sustainable local/regional economy and cooperatively builds a vibrant community. To this end, the Berkshire Cooperative Association:

- E1. Operates a financially successful, community-oriented natural food store that specializes in conscientiously selected fresh food and meals, with reasonably priced options
- E2. Flourishes
- E3. Is a model of social and environmental stewardship
- E4. Is accessible, welcoming, inclusive and innovative
- E5. Fosters the growth of local/regional food systems
- E6. Develops an informed and engaged community
- E7. Promotes healthful living
- E8. Supports a sustainable environment

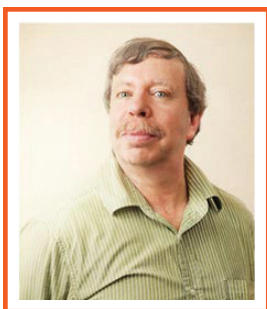
COOPERATIVE PRINCIPALS & VALUES

1. Voluntary and Open Membership
2. Democratic Member Control
3. Member Economic Participation
4. Autonomy and Independence
5. Education, Training and Information
6. Cooperation among Cooperatives
7. Concern for Community

The Cooperative Values

Self-help; self-responsibility; democracy; equality; equity; solidarity; honesty; openness; social responsibility; and caring for others.

GENERAL MANAGER'S REPORT



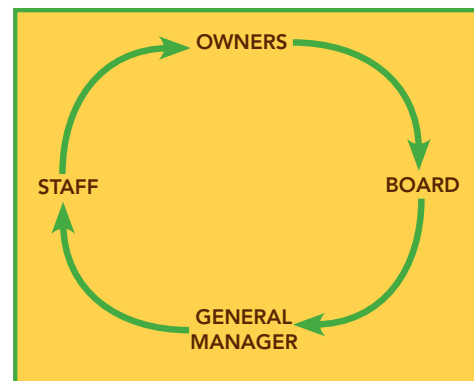
Art Ames

Every year presents itself with unique challenges and accomplishments and Fiscal Year 2013 was no exception. To start, way back in September of 2011, we restructured our management team. We eliminated the store manager position and elevated four managers into separate but equal areas of oversight responsibilities, essentially creating a collective team approach while maintaining the clarity of a traditional hierarchy including myself as the General Manager. Although somewhat unorthodox, this subtle change has proven to be a success and we continue to find ourselves working with other cooperatives interested in similar team adjustments. More of our staff is now included in cross decision making and our roles have been clarified.

The four management positions include Communications Manager, Business Manager, Fresh Foods Manager, and Non-Perishables Manager, or Matt, Bob, Jeff, and Daniel as you know them.

Our amazingly proactive Board of Directors continues to represent the needs and desires of our owners. It remains their responsibility to narrow down all that we wish to accomplish through a series of Ends Statements that summarize a broad direction and focus for our greater community (see "Our Ends" on page 1). It remains my role to interpret these same Ends Statements, be sure that all of us agree, and provide the link between our Board and our operational staff. Our leadership team, with my direction, refines the broader statements into actual programs, policies, and procedures. At various levels and stages, we also include all stakeholders including our local growers, local businesses, other community interests and, to complete the circle, you as our owners.

Because our Ends play such an important role in this cooperative and how it runs, I will summarize the past year through the lens of each individual statement. I'd also like to remind you that our Fiscal Year runs from July 1st to June 30th.



E1. Operates a financially successful, community oriented natural food store that specializes in consciously selected fresh foods and meals, with reasonably priced options.

The Co-op had a successful financial year. We totaled over \$8.5 Million for the first time in our history and experienced a growth rate of 4.5% for the year.

We continue to focus on the fresh foods in our store. Our goal is to emphasize whole, fresh foods. The Fresh Foods department is the section where we can practice what we preach, using local wholesome ingredients and offering high-quality local, fresh and sustainable vegetables and proteins. Additionally, we place a heightened emphasis on wellbeing as indicated by our Wellness Department. Take a look at average department percentage of total sales for our co-op compared to that of the 160+ member stores of the National Cooperative Grocers Association (NCGA).

Departments	BCM	NCGA
Produce	16.6%	9.4%
Meat/Seafood	5.9%	11.0%
Cheese	5.4%	2.5%
Fresh Foods (Café, Food Bar, Grab 'n Go)	18.1%	8.0%
Packaged Grocery	29.6%	39.0%
Wellness	12.6%	9.6%
Other (Tax Grocery, General Merchandise, etc.)	12.10%	22.5%

In other news, we took advantage of constantly improving internal systems in all departments, selectively adjusting our margins to find a better balance between raising prices and remaining sensitive to affordability. We made product decisions by listening and adapting to your suggestions and comments. And we continued to focus on food policy by adapting our stance on a variety of issues including the presence of GMOs in our food system.

E2. Flourishes

FY2013 started with a bang. We had robust sales and very healthy growth. Great Barrington was named the “Best Small Town in America” by Smithsonian Magazine which led to a lot of other press attention that boosted tourism to create a very successful summer for just about everyone. First quarter sales were up just over 9% when compared to the year before and we set a record for total sales in a quarter with just about \$2.3 Million. The rest of the year panned out pretty much as planned. We had some minor issues with our labor costs in the fall but those were corrected quickly. In the end, we did \$8,651,175 in total sales. That total represented a 4.5% increase from the year before and the first time the store ever topped \$8.5 million in annual sales. Consequently, we achieved a net income before a Patronage Dividend payout of \$152,134 for the year, and increase over the \$93,569 in FY 2012.

We have 188 more owners now than we did at the end of FY 2012 and owner interest continues to grow. The average sales per customer grew a bit from \$29.65 to \$29.87 per visit, and our customer count increased by 7%.

E3. Is a model of social and environmental stewardship

We strive to be a model and understand that we also have a long way to go and are consistently looking to improve. Environmentally, we have changed out most packaging, containers and in-store supplies to reflect the best balance. Our paper (never plastic) bags are now 100% post consumer waste, and with our “take a box” program, the amount of new bags that we need to purchase continues to decline. Thank you to every one of you for helping us create far less waste than any comparable grocer by supporting our endeavors and altering your own shopping habits. By working together as a co-op community, we are creating a different level of social stewardship. By the way, we now use 83% fewer bags than when we originally initiated our 10 cents charged per bag program even though our sales have grown by over 20% in the same period. Congratulations to us all!

We instituted the Owner Tab program in answer to your desire to loosen the stranglehold that the nameless banking industry has on us in the form of absurd credit card and debit card fees. I’m not referring to our local banks, cooperative banks and credit unions, but to the largest national banks that do not reinvest in our communities in any way. To date, over 100 owners are enrolled. Operationally, we continue to pledge that ALL of the funds that we save in banking fees will be reinvested in our community programs.

In FY 2013, credit card fees cost us an astounding \$107,175. Yes, you read that right; over \$100,000. In FY2012, those same fees were

WELCOME

Ada, Adam, Alan, Alice, Alina, Alison, Allison, Amy, Amy, Amy, Amy, Anita, Ann, Ann, Anne, Anne, Arthur, Barbara, Barbara, Berry, Beth, Bruce, Caleb, Candice, Carolyn, Caron, Cecily, Chris, Christiane, Claudia, Colleen, Dana, Danielle, David, Deanna, Denise, Devan, Diane, Diane, Dietmar, Donald, Dorothy, Edith, Edward, Elise, Elizabeth, Elizabeth, Ellen, Emily, Emily, Eugene, Gail, Gail, George, George, Georgia, Greg, Gregg, Gwen, Harrison, Heather, Helga, Hilary, Ilana, Iva, Jacob, Jamie, Jan, Jane, January, Jeffrey, Jennifer, Jennifer, Jennifer, Jesse, Jessica, Jessica, Jessica, Jessica, Jessica, Jill, Jim, Joan, John, John, John, Josephine, Judy, Julia, Julie, Julie, June, Karen, Karen, Karen, Karen, Kate, Katherine, Kathleen, Kevin, Kevin, Kornelia, Krista, Krista, Lara, Laura, Lauren, Lauri, Laurie, Laurily, Leonard, Leslie, Linda, Linda, Lindsey, Lisa, Lori, Lorrin, Lucie, Lucien, Maggie, Malene, Mareka, Margaret, Margarita, Maria, Marie, Mark, Marsha, Max, Meghan, Michael, Michael, Mick, Mike, Myrna, Nancy, Nancy, Nash, Natalie, Nic, Nic, Nicole, Pamela, Patrick, Patrick, Peter, Peter, Peter, Phyllis, Rich, Robert, Robert, Robert, Robert, Rolf, Rosanne, Roselline, Sally, Salome, Sandi, Shankar, Shelia, Shoshannah, Simeon, Simon, Stacy, Stephanie, Susan, Susan, Susan, Susan, Suzanne, Terence, Thia, Thomas, Thomas, Tim, Titus, Tod, Tom, Tracey, Walter, William, William, William, Yong

NEW OWNERS FY2013

\$102,060. Even though we spent about \$5,000 more last year, the increase has slowed down and with your help we can reverse the trend starting this year. Working together for a common goal, we will indeed make a difference and serve as a model for other like minded stores, many of whom are now watching what we can accomplish before themselves jumping into the fray.

E4. Is accessible, welcoming, inclusive, and innovative

We realize that this is becoming more of a challenge as sales and store traffic increase. It's simple; we need a bigger boat. Our kitchen now runs 22 hours a day, we receive major deliveries six days a week. We try and refrain from stocking shelves during peak hours and have moved things around, including the access to the café to try and give you the room that you need and deserve to shop and socialize. You already know that we are busy working on a relocation plan that will either expand our current facility or move it a short distance into a new building. Once that project is complete, access will become an advantage and cease to be a challenge.

While we all have our faults, I am confident that you will agree that the relationship that we have built amongst our staff and owners/shoppers is second to none. An employee survey told us that 87.6% of our staff enjoys working at the co-op. And the most recent customer survey reported an 85% overall satisfaction rate. I'm of the opinion that much of that satisfaction is because of the relationship that we share with all of you as our owners. Thank you!

We continue to address the issue of affordability through programs such as 'The Basics', enhanced choices in the bulk department, and focusing on fresh produce rather than less nutritional frozen foods.

E5. Fosters the growth of local/regional food systems

We must grow more food locally to satisfy the needs of our community today and moving forward. It remains our strong belief that the need to be more self-sustainable as a community will be not just desirable but crucial in the years to come. We face peak oil, absurd new weather patterns that affect production, and the eroding safety of our national food system.

To this End, every one of our departments is focusing more on local and house-made wherever possible. This year, we directly and quietly lent local farmers \$23,000 in no interest/minimal paperwork loans for projects intended to create more storage or to enhance their growing season. We have partnered with The Carrot Project to expand this concept and farmers now have access to their Greater Berkshire Agricultural Fund for potential loans and financial support.

Is it working? If you base it on our sales results, it's working in a big way.

Local sales for a normal grocery store: 6% (Yes. You read that right).

Local sales from an NCGA co-op:	20%	
FY2012 local sales at our co-op:	29%	\$2,363,576
FY2013 local sales at our co-op:	29.5%	\$2,551,022

Our total sales rose by \$365,080, and local sales increases account-

**TOP SELLERS
IN LOCAL
PRODUCE**

**SWEET CORN
8,829 EARS**

**BLUEBERRIES
5,290 PINTS**

**CARROTS
3,071
LBS LOOSE**

**-
1,525
BUNCHES**

**MUSK
MELONS
2,667 LBS**

**HONEYCRISP
APPLES
2,475 LBS**

**BEEFSTEAK
TOMATOES
2,125 LBS**

ed for \$187,446. Compared to other cooperatives, we are proudly amongst the top in local sales percentages. That is even more remarkable when you consider that some of those co-ops are in states with full-year growing seasons.

E6. Develops an informed and engaged community

You are indeed the living proof that we are part of an informed and engaged community. First time shoppers and guests recount familiar stories of fellow customers approaching them to offer advice on product selection. There’s an interactive willingness to share knowledge and personal preferences here at our co-op that I’ve never seen before. In late October of last year, an out of town consultant anonymously stood in front of our baked goods selection when one of you initiated a conversation, recommended our cookies and pointed out a gluten free choice. During that same visit, another consultant anonymously standing in front of our dairy area was told by one of you to check out our “amazing local goat yogurt”. They did everything but accuse us of stacking the deck with positive customers. I want to thank all of you for the proactive approach you take every day that you shop in our co-op. It truly is unique, and I hear quite often from occasional out of town shoppers that they wished they had a “store like this” in their own neighborhood. We offer you a variety of ways to engage, continue to improve the information offered in our newsletters and e-mail blasts, and publicly post our food policy and financial results, and your children bump into our outreach staff in the classroom or in our DIY programs here at the Co-op.

We continue to update you particularly on food issues, and because of your support, we are comfortable to try and take the lead with other cooperatives nationally in the fight to slow the progress of the introduction of GMO foods into our system. Once again, our success is dependent on all of us working together toward a common purpose. As long as you are willing to purchase alternative products at the co-op, we will continue to ban the introduction of new “and improved” products from traditional manufacturers.

E7. Promotes Healthful Living

Through the product selection, merchandising, sampling and space allocation for products, we endeavor to carry sufficient selection to allow our shoppers to eat healthily. We continue to provide alternatives to commonly allergenic foods and do our best to keep up with current trends in nutrition and diet.

We recently reset our freezers to better represent these values, giving a full door to meat and seafood for local and affordable products and choosing to concentrate on frozen fruits, vegetables whole grain and gluten-free options in the remaining eight doors. In prepared foods, we are attempting to reduce sugar and sodium in our recipes and strive to offer delicious food that is also healthy and able to satisfy all of our stakeholders.

Our outreach programs continue to thrive, especially in the schools and among our local grade schools age children. Our Education & Outreach Coordinator spends part of almost every work day helping to teach local students about healthy food through cooking classes that engage them and allow them to prepare healthy snacks.

ANNUAL SALES

2010	\$7,362,994
2011	\$7,863,178
2012	\$8,283,159
2013	\$8,653,701

LOCAL SALES

2010	\$1,979,204
2011	\$2,177,929
2012	\$2,363,576
2013	\$2,551,022

% OF SALES LOCALLY SOURCED

CONVENTIONAL STORE 6%

NCGA CO-OP AVERAGE 20%

BERKSHIRE CO-OP 29.5%

PURCHASES FROM LOCAL VENDORS \$737,904

E8. Supports a sustainable environment

In our operational decision making, we are directed to use and adopt practices that preserve environmental resources. Furthermore, we will support and embrace other activities through other organizations and efforts that work toward sustainability.

I've addressed much of this in other parts of this report. I'd like to add a couple to thoughts here. Aside from maintaining an excellent recycling program, we also reuse and reuse whenever possible. Food is rarely wasted, even the scraps are given to local farmers for compost. We recently replaced much of our lighting to save electricity and will be doing more of that work in Winter 2013. And we have fully embraced the Fishwise sustainable seafood program and no longer offer any seafood options that they classify as harmful to the ecosystem.

Additionally, we have launched our Stem the Tide GMO policy that restricts the introduction of new non-organic products with GMO at risk ingredients. This has become a popular idea with other Co-ops and, at the time of this report, we had enlisted 14 other Co-ops that represent \$192 Million in total annual sales to join the effort.

Summary

Indeed we have a long way to go. However, the connection between our board, staff, owners, and community has never been stronger. We'll all need to make sure that we remain so as it appears obvious that self reliance and sustainability will take on more relevance in the years ahead.

This last year, we strengthened that foundation and began to work toward our expansion/relocation plans. This coming year, we'll hit expansion full speed ahead, because if we are indeed going to be able to contribute to our community, we will need to strengthen our infrastructure. While some of what we hope to accomplish may initially seem daunting, our staff is much more than capable and they actually reflect our owner base. As the world around us changes, we will embrace our own change, learn from each other, and share our common vision. I remain honored to be part of it.



BOARD PRESIDENT'S REPORT



Dan Seitz

During the past year, the Board of Directors focused its efforts on taking the steps necessary for a successful expansion/relocation of the Co-op. Our preferred site continues to be the former Log Homes site down the street from our current location, since we believe it provides the greatest flexibility to build an attractive state-of-the-art building that would include many environmentally sustainable features. There are, however, a number of complexities associated with this site that are slowing down our movement forward, including experimenting with bioremediation of the toxins in the soil and developing a set of satisfactory contractual arrangements between the Co-op, the Community Development Corporation (which owns the land), and the company that will develop the site.

The Board exercises several important responsibilities in regard to the expansion project, including:

- Ensuring that financial projections for an expanded store in terms of anticipated earnings and expenses are realistic and conservative, so that we can know with reasonable clarity how much we can responsibly invest in the expansion project;
- Ensuring that the final cost of the project is genuinely affordable, given the financial projections; it is essential that the Co-op expansion will not jeopardize our long-term financial wellbeing;
- Ensuring that the contractual relations among the parties involved in the project are clearly stated and in line with the Co-op's needs and interests, including the timing of the project, allocation of risk, and so on;
- Ensuring that when we borrow money from banks, our owners, and other cooperative organizations, that the rates and amounts are reasonable given our ability to repay and the anticipated cash flow from the new store;
- Ensuring that the Board collectively develops the knowledge regarding commercial projects of this nature and gathers the information needed to make good decisions on behalf of the Co-op owner community; and
- Ensuring that, in the end, the expansion will genuinely benefit our owners, all of our patrons, and the wider community.

I am happy to report that the Co-op is, once again, able to return a small dividend to its owners according to the amount of money spent by each owner during the past fiscal year. This is possible because we achieved a small surplus during the year. This surplus also enabled us to modestly increase our financial reserves; we hope to increase these reserves as much as possible prior to the start of the expansion project in order to give us more of a financial cushion moving forward.

While operating profitably is essential to the long-term success of the Co-op, we remain at the same time committed to a triple-bottom-line that is not only concerned with financial profit but the wellbeing of our community and of the planet as well. During the past year, the Co-op continued to donate money and services to a variety of local entities, including non-profit organizations and schools. Additionally, the Co-op continued to expand sales of local produce and products, thereby benefiting local farmers and companies, as well as consumers and the environment. One thing that I am particularly proud about is the Co-op's role in responding to the adverse health, environmental and financial risks posed by the rapid expansion of GMO crops and the growing inclusion of GMO ingredients in many processed foods. The Co-op now has a food purchasing policy that lessens the risk that the Co-op will inadvertently sell GMO-compromised foods, and we now carry many products that are certified non-GMO by the Non-GMO Project and labeled as such on the shelves. We are also donating to the GMO-labeling initiatives that are happening around the country.

During the past year, the Co-op continued to expand the range of products we offer consumers and explore other innovations. As a community resource, we truly contribute to the vibrant energy of Great Barrington and the greater Berkshires region. On behalf of the Board, I thank our General Manager, Art Ames, and the rest of the managers and staff members for their tremendous contributions to the Co-op's ongoing success. Their commitment is what enables the Co-op to flourish. I would also like to thank my colleagues on the Board for the many hours they volunteer and, finally, thank you, our owners. The Co-op exists—and impacts our community in positive ways—because of your patronage, values and commitment.

A handwritten signature in black ink, appearing to read "Dan Seitz". The signature is fluid and cursive, written over a white background.

BERKSHIRE COOPERATIVE ASSOCIATION, INC.
STATEMENTS OF ASSETS, LIABILITIES AND OWNERS' EQUITY - INCOME TAX BASIS
JUNE 30, 2013 AND 2012

	<u>ASSETS</u>	
	<u>2013</u>	<u>2012</u>
<u>CURRENT ASSETS</u>		
Cash and cash equivalents	\$ 379,454	\$ 237,743
Employee and other receivables	4,944	24,143
Loans receivable	68,159	
Inventory at cost	347,650	337,520
Prepaid expenses	20,668	20,315
Total current assets	\$ 820,875	\$ 682,281
<u>PROPERTY AND EQUIPMENT</u>		
Property and equipment	\$ 1,126,871	\$ 1,227,072
Less accumulated depreciation	498,979	575,876
Total property and equipment	\$ 627,892	\$ 651,196
<u>OTHER ASSETS</u>		
Restricted cash	\$ 15,000	\$ 15,000
Investments in other cooperatives	80,078	67,303
Other assets	3,113	3,220
Total other assets	\$ 98,191	\$ 85,523
<u>TOTAL ASSETS</u>	\$ 1,546,958	\$ 1,419,000
<u>LIABILITIES AND OWNERS' EQUITY</u>		
<u>CURRENT LIABILITIES</u>		
Accounts payable	\$ 322,091	\$ 294,694
Gift certificates payable	16,200	13,686
Sales, payroll and corporate income taxes payable	32,225	26,058
Patronage dividend payable	20,437	12,272
Accrued payroll and compensated absences	64,518	51,161
Other accrued expenses	11,426	4,116
Current portion of long-term debt	70,522	67,682
Total current liabilities	\$ 537,419	\$ 469,669
<u>LONG-TERM LIABILITIES</u>		
Long-term debt - net of current portion	111,229	181,627
Total liabilities	\$ 648,648	\$ 651,296
<u>OWNERS' EQUITY</u>	898,310	767,704
<u>TOTAL LIABILITIES AND OWNERS' EQUITY</u>	\$ 1,546,958	\$ 1,419,000

Please Note: This is a summary of our financial information; a complete set of our Accountant Prepared Financial Statement is available and will be provided upon request.

BERKSHIRE COOPERATIVE ASSOCIATION, INC.
STATEMENTS OF OPERATIONS - INCOME TAX BASIS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Net Sales	\$ 8,653,304	\$ 8,288,224
Cost of Sales	<u>5,250,389</u>	<u>5,116,537</u>
Gross Profit	\$ 3,402,915	\$ 3,171,687
<u>Operating Expenses</u>		
Advertising	\$ 84,925	\$ 91,796
Amortization	107	107
Bank charges and miscellaneous	7,082	3,038
Credit card processing fees	109,868	102,214
Consulting fees	21,078	27,126
Depreciation	63,990	43,214
Discounts	119,224	120,104
Donations	17,640	10,332
Dues and subscriptions	21,191	24,754
Employee benefit programs	126,587	120,384
Governance	30,751	31,852
Insurance - liability and workers' compensation	32,195	28,532
Legal and professional fees	21,550	19,575
Licenses, permits and fees	694	728
Linen service	16,460	18,298
Marketing expense	29,657	24,952
Meals and entertainment	1,211	642
Office and postage expenses	25,982	27,064
Other employee costs (including discounts)	78,869	74,495
Payroll tax expense	181,067	173,277
Rent	131,050	116,454
Repairs and maintenance	91,454	85,191
Salaries and wages	1,870,641	1,762,262
Supplies	68,776	60,476
Taxes - other	542	522
Training and education	13,554	10,916
Travel and vehicle expenses	11,517	10,509
Utilities	<u>82,518</u>	<u>82,620</u>
Total operating expenses	\$ <u>3,260,180</u>	\$ <u>3,071,434</u>
Savings from Operations	\$ 142,735	\$ 100,253
<u>Other Income (Expense)</u>		
Interest income	\$ 2,482	\$ 2,637
Dividend income	15,899	9,269
Interest expense	<u>(8,982)</u>	<u>(18,590)</u>
Total other income (expense)	\$ <u>9,399</u>	\$ <u>(6,684)</u>
Net Savings before Taxes	\$ 152,134	\$ 93,569
Provision for Income Taxes	<u>27,445</u>	<u>16,250</u>
Net Savings	\$ <u><u>124,689</u></u>	\$ <u><u>77,319</u></u>

NOTES