FINANCIAL STATEMENTS

December 31, 2018 and 2017

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INDEPENDENT ACCOUNTANT'S REVIEW REPORT

To the Board of Directors
Moscow Food Co-op
Moscow, Idaho

We have reviewed the accompanying financial statements of Moscow Food Co-op, which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of income, owners' equity, and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Cooperative management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management's Responsibility 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement whether due to fraud or error.

Accountant's Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountant's Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Wegner CPAs LLP

Wegner CPAs, LLP
Madison, Wisconsin
September 30, 2019

MOSCOW FOOD CO-OP
BALANCE SHEETS
December 31, 2018 and 2017

	2018	2017
ASSETS		
CURRENT ASSETS		
Cash	$ 522,103	$ 1,280,991
Certificate of deposit	303,286	381,953
Accounts receivable	28,567	49,180
Prepaid expenses	55,956	44,467
Inventory	410,414	369,944
Total current assets	1,320,326	2,126,535
Equipment and leasehold improvements, net	1,177,076	652,126
OTHER ASSETS		
Security deposit	11,568	9,678
Equity and deposits in other cooperatives	142,269	130,086
Deferred tax asset	54,500	15,500
Total other assets	208,337	155,264
Total assets	$ 2,705,739	$ 2,933,925
LIABILITIES AND OWNERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 186,016	$ 260,119
Accrued personnel	216,036	207,691
Current portion of capital lease obligation	4,624	4,624
Current portion of notes payable	76,708	72,612
Other current liabilities	123,171	126,485
Total current liabilities	606,555	671,531
OTHER LIABILITIES		
Capital lease obligation less current portion	1,100	5,724
Notes payable less current portion	450,680	527,388
Total liabilities	1,058,335	1,204,643
OWNERS' EQUITY		
Owners' equity	1,093,657	1,029,353
Retained patronage dividends	317,969	317,969
Retained earnings	235,778	381,960
Total owners' equity	1,647,404	1,729,282
Total liabilities and owners' equity	$ 2,705,739	$ 2,933,925

See accompanying notes and independent accountant's review report.

MOSCOW FOOD CO-OP
STATEMENTS OF INCOME
Years Ended December 31, 2018 and 2017

	2018		2017	
	Amount	Percent	Amount	Percent
REVENUE				
Sales	$ 11,385,654	102.38	$ 11,148,174	102.73
Less discounts	264,799	2.38	295,764	2.73
Net sales	11,120,855	100.00	10,852,410	100.00
Cost of goods sold	6,586,064	59.22	6,447,410	59.41
Gross profit	4,534,791	40.78	4,405,000	40.59
OPERATING EXPENSES				
Personnel	3,317,440	29.83	3,154,273	29.07
Operations	418,127	3.76	425,889	3.92
Occupancy	417,052	3.75	395,441	3.64
Administrative	229,693	2.07	204,404	1.88
Depreciation	209,298	1.88	147,001	1.35
Marketing and outreach	98,362	0.88	86,391	0.80
Governance	35,636	0.32	36,289	0.33
Total operating expenses	4,725,608	42.49	4,449,688	40.99
Loss from operations	(190,817)	(1.71)	(44,688)	(0.40)
OTHER INCOME (EXPENSES)				
Other income	48,418	0.44	68,341	0.63
Interest expense	(31,615)	(0.28)	(850)	(0.01)
Other expense	(11,138)	(0.10)	(3,531)	(0.03)
Total other income (expense)	5,665	0.06	63,960	0.59
Net income (loss) before income taxes	(185,152)	(1.65)	19,272	0.19
Provision for income taxes	(38,970)	(0.34)	(195)	-
Net income (loss)	$ (146,182)	(1.31)	$ 19,467	0.19

See accompanying notes and independent accountant's review report.

MOSCOW FOOD CO-OP
STATEMENTS OF OWNERS' EQUITY
Years Ended December 31, 2018 and 2017

	Owners' Equity	Retained Patronage Dividends	Retained Earnings	Total Owners' Equity
Balance December 31, 2016	$ 963,930	$ 317,969	$ 362,493	$ 1,644,392
Stock issued	65,423	-	-	65,423
Net income	-	-	19,467	19,467
Balance December 31, 2016	1,029,353	317,969	381,960	1,729,282
Stock issued	64,304	-	-	64,304
Net loss	-	-	(146,182)	(146,182)
Balance December 31, 2018	$ 1,093,657	$ 317,969	$ 235,778	$ 1,647,404

See accompanying notes and independent accountant's review report.

MOSCOW FOOD CO-OP
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ (146,182)	$ 19,467
Adjustments to reconcile net income (loss) to net cash flows from operating activities		
Depreciation	209,298	147,001
Loss on disposal of equipment	11,138	2,952
Deferred taxes	(39,000)	(14,964)
(Increase) decrease in assets		
Accounts receivable	20,613	(29,277)
Prepaid expenses	(11,489)	(13,665)
Inventory	(40,470)	79,193
Security deposit	(1,890)	(1,120)
Equity and deposits in other cooperatives	(12,183)	(21,711)
Increase (decrease) in liabilities		
Accounts payable	(74,103)	68,834
Accrued personnel	8,345	30,419
Other current liabilities	(3,314)	(12,132)
Net cash flows from operating activities	(79,237)	254,997
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of and interest retained in certificates of deposit	(2,457)	(300,977)
Redemption of certificates of deposit	81,124	-
Purchases of equipment	(745,386)	(225,007)
Net cash flows from investing activities	(666,719)	(525,984)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	-	600,000
Payments on capital lease obligation	(4,624)	(4,478)
Payments on notes payable	(72,612)	(39,352)
Patronage dividends paid	-	(31,205)
Proceeds from stock issued	64,304	65,423
Net cash flows from financing activities	(12,932)	590,388
Net change in cash	(758,888)	319,401
Cash at beginning of year	1,280,991	961,590
Cash at end of year	$ 522,103	$ 1,280,991
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	$ 31,615	$ 850
Cash paid for income taxes	-	27,227
Noncash investing and financing transactions		
Purchase of equipment by capital lease obligation	-	5,304

See accompanying notes and independent accountant's review report.

Moscow Food Co-op (Cooperative) was originally incorporated in 1974 as a nonprofit cooperative association with the state of Idaho. The Cooperative operates a natural foods retail grocery store in Moscow, Idaho which emphasizes locally produced, organically grown, and ecologically sound products. Through providing healthy food, the Cooperative has created a healthier planet and a stronger, healthier community. It has built a cooperative community based on the recognition that "we are stronger together." The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounts Receivable

The Cooperative considers all accounts receivable to be fully collectible. Accordingly, no allowance for doubtful accounts has been established. If amounts become uncollectible, they will be charged to operations when that determination is made.

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.

Equipment and Leasehold Improvements

The cost of the equipment and leasehold improvements in excess of $2,500 is capitalized at cost and depreciated using the straight-line method over the estimated useful lives of the assets, which range from 5 to 15 years.

Income Taxes

The Cooperative is taxed on non-patronage earnings and any patronage earnings not paid or allocated to the members. Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes.

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.

Deferred taxes are recognized for temporary differences between the basis of assets and liabilities for the financial statements and income tax purposes. The differences relate primarily to using accelerated depreciation methods for income tax purposes and to timing differences for accrued expenses which are not deductible for income tax purposes unless paid within two and one-half months following the Cooperative's year end. Deferred taxes are also recognized for operating losses and tax credits that are available to offset future taxable income. The Cooperative has a net operating loss carry-forward of approximately $1,000,000 for federal purposes at December 31, 2018. The carry-forward begins to expire in 2038.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenue and expenses. Actual results could differ from those estimates.

Advertising

Advertising costs are expensed as incurred. Advertising expenses for 2018 and 2017 were $33,804 and $19,813.

Presentation of Sales Taxes

The State of Idaho imposes sales tax of 6% on some of the Cooperative sales to nonexempt customers. The Cooperative collects those taxes from customers and remits the entire amount to the state. The Cooperative's accounting policy is to exclude the taxes collected and remitted to the state from sales and cost of sales.

Date of Management's Review

Management has evaluated subsequent events through September 30, 2019, date which the financial statements were available to be issued.

NOTE 2 – EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements at December 31, 2018 and 2017 consisted of the following:

	2018	2017
Equipment	$ 1,300,331	$ 1,042,401
Leasehold improvements	1,270,465	832,673
Construction in progress	21,413	172,703
Equipment and leasehold improvements	2,592,209	2,047,777
Less accumulated depreciation	1,415,133	1,395,651
Equipment and leasehold improvements - net	$ 1,177,076	$ 652,126

NOTE 3 – EQUITY AND DEPOSITS IN OTHER COOPERATIVES

Equity and deposits in other cooperatives at December 31, 2018 and 2017 consisted of the following:

Incl's DLF

	2018	2017
National Cooperative Grocers	$ 137,297	125,807
Frontier Cooperative Herbs	4,947	4,254
Maple Valley Cooperative	25	25
Equity and deposits in other cooperatives	$ 142,269	$ 130,086

The investments in these cooperatives, while not readily marketable, are necessary to maintain participation in the purchase of merchandise or services. These amounts are recorded at cost and may only be redeemed at face value at the discretion of the other cooperatives' boards of directors.

NOTE 4 – NOTES PAYABLE

Notes payable balances at December 31, 2018 and 2017 were as follows:

	2018	2017
5.5% note payable to a local corporation, secured by a Commercial Security Agreement. Monthly payments of principal and interest of $8,650 began February 2018. The note matures January 2025.	$ 527,388	$ 600,000
Notes payable	527,388	600,000
Current portion of notes payable	(76,708)	(72,612)
Notes payable net of current portion	$ 450,680	$ 527,388

Future minimum principal payments are as follows:

2019	$ 76,708
2020	81,035
2021	85,606
2022	90,435
2023	95,536
Thereafter	98,068
Notes payable	$ 527,388

NOTE 5 – OWNERS' EQUITY

Owners' investments represent one share of no par value stock in the Cooperative. Owners are required to purchase one share of stock for $150, which can be paid in annual installments of $10 for 15 years. Owners who are delinquent by 3 months in meeting the share purchase requirement or fail to make a purchase from the Cooperative within a one-year period are deemed to be inactive. All active members are eligible to vote for the Cooperative's board of directors and receive certain discounts. Investments are redeemable only upon dissolution of the Cooperative. At the discretion of the Cooperative's directors, owners are eligible to obtain patronage dividends on the Cooperative's earnings.

NOTE 6 – LEASING ARRANGEMENTS

Operating Lease

They incl'd storage space $130/mo rent

The Cooperative leases retail space under an operating lease that expires March 2035. Monthly payments are $13,662, which include the base rent plus taxes, insurance, and a repair contingency. The lease requires a 3% annual escalation of the base rent.

In October 2017, the Cooperative entered into a lease for additional retail space expiring August 2020. Monthly payments are $835.

In December 2018, the Cooperative entered into a lease for additional retail space expiring November 2019. Monthly payments are $1,550.

Future minimum payments on operating leases are as follows:

2019	$ 172,812
2020	174,396
2021	172,770
2022	177,983
2023	183,608
Thereafter	2,217,083
Total future lease obligations	$ 3,098,652

Rent expense for 2018 and 2017 was $145,333 and $139,924.

Capital Leases

The Cooperative leases several pieces of equipment under capital leases. Monthly payments are $421. The value of the equipment recorded under the capital leases is $14,796 with accumulated depreciation of $6,936 at December 31, 2018. Depreciation of the assets under capital lease is included in depreciation expense.

NOTE 6 – LEASING ARRANGEMENTS (continued)

Future minimum payments required under the capital leases are as follows:

2019	$	5,051
2020		1,242
Less amount representing interest		(569)
Present value of net minimum lease payments		5,724
Less current portion		4,624
Capital lease obligation less current portion	$	1,100

NOTE 7 – CONCENTRATIONS

Concentrations of Credit

The Cooperative maintains cash balances at various financial institutions in Idaho. The Federal Deposit Insurance Corporation and National Credit Union Administration insure accounts at the Cooperative's bank and one of its credit unions up to $250,000. In addition, the second credit union participates in an insurance fund which insures up to $250,000 in each account. On December 31, 2018 and 2017, the Cooperative had uninsured cash balances of approximately $50,000 and $520,000.

Adaama loan proceeds

Purchasing Agreement

The Cooperative has an agreement through National Cooperative Grocers (NCG) with United Natural Food, Inc. (UNFI). The Cooperative agrees to use UNFI as its primary grocery supplier in exchange for additional purchase discounts. UNFI provides approximately 42% of the value of items purchased for resale. As part of this agreement the Cooperative, along with other natural food cooperatives, is a member of the Joint Liability Fund (JLF) coordinated by NCG.

In order to obtain better terms with UNFI, the members of the JLF have guaranteed the debt of the other members of their corridor 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. The Cooperative's JLF balance at December 31, 2018 and 2017 was $25,675 and $17,490.

NOTE 8 – PENSION PLAN

The Cooperative established a 401(k) plan for eligible employees. After meeting certain eligibility requirements, 50% of the employees' contributions are matched by the Cooperative, up to 6% of the employees' compensation. Pension expense was $29,730 and $31,723 for the years ended December 31, 2018 and 2017.

NOTE 9 – INCOME TAXES

The provision for income taxes for 2018 and 2017 consists of the following components:

	2018	2017
Federal income tax expense	$ -	$ 10,016
Idaho income tax expense	30	4,753
Deferred tax benefit	(39,000)	(14,964)
Provision for income taxes	$ (38,970)	$ (195)

The Cooperative's total deferred tax asset, total deferred tax liability, and net deferred tax asset at December 31, 2018 and 2017 were as follows:

	2018	2017
Deferred tax asset	$ 189,000	$ 15,500
Valuation allowance	-	-
Deferred tax liability	(134,500)	-
Net deferred tax asset	$ 54,500	$ 15,500