MOSCOW FOOD CO-OP

FINANCIAL STATEMENTS

December 31, 2015

C O N T E N T S

Independent Accountant's Review Report 1

Balance Sheet 2

Statement of Income 3

Statement of Owners' Equity 4

Statement of Cash Flows 5

Notes to Financial Statements 6

Wegner CPAs

INDEPENDENT ACOUNTANT'S REVIEW REPORT

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

We have reviewed the accompanying financial statement of Moscow Food Co-op, which comprise the balance sheet as of December 31, 2015, and the related statements of income and owners' 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 company 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.

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.

Wegner CPAs LLP

Wegner CPAs, LLP
Madison, Wisconsin
October 21, 2016

New York Office:
230 Park Avenue, 10th Floor
New York, NY 10146
P: (212) 551-1724
F: (262) 522-7550

Washington DC Office:
400 North Washington Street
Second Floor
Alexandria, VA 22314
P: (703) 519-0990

Wisconsin Office:
2110 Luann Lane
Madison, WI 53713
P: (608) 274-4020
F: (608) 274-0775

www.wegnercpas.com
info@wegnercpas.com
(888) 204-7665

MOSCOW FOOD CO-OP
BALANCE SHEET
December 31, 2015

ASSETS	
CURRENT ASSETS	
Cash	$ 809,997
Certificates of deposit	80,752
Prepaid expenses	61,671
Inventory	450,644
Other current assets	7,710
Total current assets	1,410,774
Equipment and leasehold improvements - net	696,326
OTHER ASSETS	
Other assets	8,558
Equity and deposits in other cooperatives	97,346
Deferred tax asset	536
Total other assets	106,440
Total assets	$ 2,213,540
LIABILITIES AND OWNERS' EQUITY	
CURRENT LIABILITIES	
Accounts payable	$ 312,616
Accrued personnel	159,627
Current portion of notes payable	97,828
Patronage dividend payable	12,347
Other current liabilities	108,565
Total current liabilities	690,983
OTHER LIABILITIES	
Notes payable less current portion	39,352
Total liabilities	730,335
OWNERS' EQUITY	
Retained patronage dividends	210,891
Owners' equity	896,577
Retained earnings	375,737
Total owners' equity	1,483,205
Total liabilities and owners' equity	$ 2,213,540

See accompanying notes and independent accountant’s review report.

MOSCOW FOOD CO-OP
STATEMENT OF INCOME
Year Ended December 31, 2015

	Amount	Percent
SALES REVENUE		
Sales	$ 10,903,139	100.00
Less discounts	19,138	0.18
Net sales	10,884,001	99.82
Less cost of goods sold	6,337,659	58.13
Gross profit	4,546,342	41.69
OPERATING EXPENSES		
Personnel	3,048,845	27.96
Occupancy	384,196	3.52
Administrative	342,834	3.14
Marketing and outreach	283,014	2.60
Operations	278,723	2.56
Depreciation	123,068	1.13
Governance	36,367	0.33
Total operating expenses	4,497,047	41.24
Income from operations	49,295	0.45
OTHER INCOME (EXPENSES)		
Other income	40,792	0.37
Interest expense	(5,475)	(0.05)
Other expense	(579)	(0.01)
Total other income (expense)	34,738	0.31
Net income before provision for income taxes	84,033	0.77
Provision for income taxes	9,342	0.09
Net income	$ 74,691	0.68

See accompanying notes and independent accountant's review report.

MOSCOW FOOD CO-OP
STATEMENT OF OWNERS' EQUITY
Year Ended December 31, 2015

	Retained Patronage	Owners' Equity	Retained Earnings	Total Owners' Equity
Balance January 1, 2015	$ 161,502	$ 830,829	$ 362,782	$ 1,355,113
Stock issued	-	65,748	-	65,748
Patronage dividend	61,736	-	(61,736)	-
Patronage dividends payable	(12,347)	-	-	(12,347)
Net income	-	-	74,691	74,691
Balance December 31, 2015	$ 210,891	$ 896,577	$ 375,737	$ 1,483,205

See accompanying notes and independent accountant’s review report.

MOSCOW FOOD CO-OP
STATEMENT OF CASH FLOWS
Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	$ 74,691
Adjustments to reconcile net income to net cash flows from operating activities	
Depreciation	123,068
Loss on disposal of equipment	1,484
(Increase) decrease in assets	
Prepaid expenses	(17,738)
Inventory	9,922
Other current assets	494
Increase (decrease) in liabilities	
Accounts payable	137,777
Accrued personnel	23,954
Other current liabilities	(7,260)
Net cash flows from operating activities	346,392
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of certificates of deposit	(602)
Payments for the purchase of property and equipment	(182,181)
Purchase of investment in other coops	(12,023)
Net cash flows from investing activities	(194,806)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from notes payable	200,000
Payments on notes payable	(96,264)
Proceeds from stock issued	65,748
Net cash flows from financing activities	169,484
Net change in cash	321,070
Cash - beginning of year	488,927
Cash - end of year	$ 809,997
SUPPLEMENTAL DISCLOSURES	
Cash paid for interest	$ 5,475
Cash paid for income taxes	6,500
Noncash investing and financing transactions	
Patronage dividend payable	12,347

See accompanying notes and independent accountant's review report.

Moscow Food Coop (the 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

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.

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.

Certificate of Deposit

The Cooperative's certificate of deposit matured in February 2016 and was renewed until July 2017, with an annual interest rate of .2%. 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 market. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income Taxes

The Cooperative is taxed on non-patronage earnings and any patronage earnings not paid or allocated to the members.

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 2015 was $11,978.

Presentation of Sales Taxes

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

Date of Management's Review

Management has evaluated subsequent events through October 21, 2016, date which the financial statements were available to be issued.

NOTE 2 – EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements at December 31, 2015 consisted of the following:

Leasehold improvements	$ 815,379
Equipment	1,186,590
Equipment and leasehold improvements	2,001,969
Less accumulated depreciation	(1,305,643)
Equipment and leasehold improvements - net	$ 696,326

NOTE 3 – EQUITY AND DEPOSITS IN OTHER COOPERATIVES

The Cooperative holds equity and deposits in other cooperatives. These amounts are required to maintain participation in the purchase of merchandise. The amounts are not marketable and may only be redeemed at face value at the discretion of the cooperatives' boards of directors.

Equity and deposits in other cooperatives at December 31, 2015 consisted of the following:

National Cooperative Grocers	$	97,101
Frontier Cooperative Herbs		220
Maple Valley Cooperative		25
Equity and deposits in other cooperatives	$	97,346

NOTE 4 – NOTES PAYABLE

At December 31, 2015 notes payable consisted of a 4.5% note payable to a local corporation, secured by a Commercial Security Agreement. Monthly payments of principal and interest are $8,500 and the note matures in May 2017. Interest expense during 2015 was $5,475.

NOTE 5 – OWNERS' EQUITY

Owners' investments represent one share of 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 refunds on the Cooperative's earnings.

NOTE 6 – LEASING ARRANGEMENTS

The Cooperative leases its retail location under an operating lease that expires March 2020. Monthly payments are $12,873, which includes the base rent plus taxes, insurance and a repair contingency. The lease requires a 3% annual escalation of the base rent.

Future minimum payments on leases are:

2016	$	153,585
2017		157,571
2018		161,650
2019		165,852
2020		41,727

Rent expense for 2015 was $135,476.

NOTE 7 – CONCENTRATIONS

Purchasing Agreement

The Cooperative has an agreement through the 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.

Concentrations of Cash

The Cooperative maintains cash balances at various financial institutions. The Federal Deposit Insurance Corporation and National Credit Union Administration insure accounts at each institution up to $250,000. On December 31, 2015, the Cooperative had uninsured cash balances of $276,492.

NOTE 8 – PROVISION FOR INCOME TAXES

Provision for income taxes for the year ended December 31, 2015 consisted of the following components:

Federal income tax	$	7,696
Idaho income tax		1,646
Total current provision		9,342
Deferred income tax		-
Provision for income taxes	$	9,342

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.

The deferred tax asset results from differences in depreciation methods for financial statement and tax purposes.

NOTE 8 – PROVISION FOR INCOME TAXES (continued)

The Cooperative's total deferred tax asset, total deferred tax liability, and net deferred tax asset at December 31, 2015 were as follows:

Deferred tax asset	$	536
Valuation allowance		-
Deferred tax liability		-
Net deferred tax asset (liability)	$	536

NOTE 9 – PENSION PLAN

The Cooperative established a 401(k) plan for eligible employees. After meeting certain eligibility requirements, 50% of the employee's contributions are matched by the Cooperative, up to 6% of the employee's compensation. Pension expense was $28,236 in the year ended December 31, 2015. During 2016 the required eligibility period to participate in the plan changed from 3 months to one year of service.

NOTE 10 – PRIOR PERIOD ADJUSTMENT

Certain errors resulting in the understatement of fixed assets and retained earnings were noted during the current year. Accordingly, an adjustment was made to increase equipment and retained earnings by $4,101.

NOTE 11 – SUBSEQUENT EVENTS

On August 8, 2016 the Cooperative signed an agreement with the NCG Development Co+operative for professional services related to the remodel of its retail store. The maximum development fee under the contract will be $75,000, however the Cooperative may terminate the agreement at any time after paying all direct expenses incurred up to the date of termination and a development fee equal to 10% of direct expenses.