FINANCIAL STATEMENTS

December 31, 2019 and 2018

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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 (a corporation), which comprise the balance sheets as of December 31, 2019 and 2018, 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 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 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 accordance with accounting principles generally accepted in the United States of America.

Wegner CPAs LLP

Wegner CPAs, LLP
Madison, Wisconsin
July 21, 2020

MOSCOW FOOD CO-OP
BALANCE SHEETS
December 31, 2019 and 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash	$ 405,087	$ 522,103
Certificates of deposit	412,374	303,286
Accounts receivable	27,647	28,567
Prepaid expenses	68,298	55,956
Inventory	439,978	410,414
Total current assets	1,353,384	1,320,326
EQUIPMENT AND LEASEHOLD IMPROVEMENTS		
Equipment and leasehold improvements, net	1,187,135	1,177,076
OTHER ASSETS		
Security deposit	11,568	11,568
Equity and deposits in other cooperatives	149,091	142,269
Deferred tax asset	76,000	54,500
Total other assets	236,659	208,337
Total assets	$ 2,777,178	$ 2,705,739
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 283,480	$ 186,016
Accrued personnel	202,168	216,036
Current portion of capital lease obligation	1,099	4,624
Current portion of notes payable	85,835	76,708
Other current liabilities	128,821	123,171
Total current liabilities	701,403	606,555
LONG-TERM LIABILITIES		
Capital lease obligation less current portion	-	1,100
Notes payable less current portion	392,062	450,680
Total long-term liabilities	392,062	451,780
Total liabilities	1,093,465	1,058,335
OWNERS' EQUITY		
Owners' equity	1,156,770	1,093,657
Retained patronage dividends	317,969	317,969
Retained earnings	208,974	235,778
Total owners' equity	1,683,713	1,647,404
Total liabilities and owners' equity	$ 2,777,178	$ 2,705,739

See accompanying notes and independent accountant’s review report.

MOSCOW FOOD CO-OP
STATEMENTS OF INCOME
Years Ended December 31, 2019 and 2018

	2019		2018	
	Amount	Percent	Amount	Percent
SALES REVENUE				
Sales	$ 11,530,799	102.85	$ 11,385,654	102.38
Less discounts	319,107	2.85	264,799	2.38
Net sales	11,211,692	100.00	11,120,855	100.00
Cost of goods sold	6,719,253	59.93	6,586,064	59.22
Gross profit	4,492,439	40.07	4,534,791	40.78
OPERATING EXPENSES				
Personnel	3,115,240	27.79	3,317,440	29.83
Occupancy	444,782	3.97	417,052	3.75
Operations	398,744	3.56	418,127	3.76
Administrative	241,433	2.15	229,693	2.07
Depreciation	231,124	2.06	209,298	1.88
Marketing and outreach	102,451	0.91	98,362	0.88
Governance	27,959	0.25	35,636	0.32
Total operating expenses	4,561,733	40.69	4,725,608	42.49
Net loss from operations	(69,294)	(0.62)	(190,817)	(1.71)
OTHER INCOME (EXPENSES)				
Other income	51,585	0.46	48,418	0.44
Interest expense	(27,519)	(0.25)	(31,615)	(0.28)
Loss on disposal of equipment	(3,076)	(0.03)	(11,138)	(0.10)
Total other income (expense)	20,990	0.18	5,665	0.06
Net loss before income taxes	(48,304)	(0.44)	(185,152)	(1.65)
Provision for income taxes	21,500	0.19	38,970	0.34
Net loss	$ (26,804)	(0.25)	$ (146,182)	(1.31)

See accompanying notes and independent accountant’s review report.

MOSCOW FOOD CO-OP
STATEMENTS OF OWNERS' EQUITY
Years Ended December 31, 2019 and 2018

	Owners' Equity	Retained Patronage Dividends	Retained Earnings	Total Owners' Equity
Balance at December 31, 2017	$ 1,029,353	$ 317,969	$ 381,960	$ 1,729,282
Stock issued	64,304	-	-	64,304
Net loss	-	-	(146,182)	(146,182)
Balance at December 31, 2018	1,093,657	317,969	235,778	1,647,404
Stock issued	63,113	-	-	63,113
Net loss	-	-	(26,804)	(26,804)
Balance at December 31, 2019	$ 1,156,770	$ 317,969	$ 208,974	$ 1,683,713

See accompanying notes and independent accountant’s review report.

MOSCOW FOOD CO-OP
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (26,804)	$ (146,182)
Adjustments to reconcile net loss to net cash flows from operating activities		
Depreciation	231,124	209,298
Loss on disposal of equipment	3,076	11,138
Change in deferred taxes	(21,500)	(39,000)
(Increase) decrease in assets		
Accounts receivable	920	20,613
Prepaid expenses	(12,342)	(11,489)
Inventory	(29,564)	(40,470)
Security deposit	-	(1,890)
Equity and deposits in other cooperatives	(6,822)	(12,183)
Increase (decrease) in liabilities		
Accounts payable	97,464	(74,103)
Accrued personnel	(13,868)	8,345
Other current liabilities	5,650	(3,314)
Net cash flows from operating activities	227,334	(79,237)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of and interest retained in certificates of deposit	(109,088)	(2,457)
Redemption of certificates of deposit	-	81,124
Purchases of equipment and leasehold improvements	(216,191)	(745,386)
Net cash flows from investing activities	(325,279)	(666,719)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligation	(4,625)	(4,624)
Principal payments on notes payable	(77,559)	(72,612)
Proceeds from stock issued	63,113	64,304
Net cash flows from financing activities	(19,071)	(12,932)
Net change in cash	(117,016)	(758,888)
Cash at beginning of year	522,103	1,280,991
Cash at end of year	$ 405,087	$ 522,103
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	$ 27,519	$ 31,615
Noncash investing and financing transactions		
Purchase of equipment financed with note payable	28,068	-

See accompanying notes and independent accountant's review report.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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. The Cooperative 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.”

Accounts Receivable

Accounts receivable are stated at the amount management expects to be collected from outstanding balances. As of December 31, 2019 and 2018, management has determined based on historical experiences that all amounts are fully collectible, and no allowance for doubtful accounts is necessary.

Inventory

Inventory, which consists of grocery and related consumer goods held for resale, is valued at the lower of cost or net realizable value determined using the first-in, first-out (FIFO) method.

Equipment and Leasehold Improvements

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. 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 the use of different depreciation methods and lives for financial statement and income tax purposes and the net operating loss and charitable contribution carryforwards available to offset future taxable income. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be deductible or taxable when the assets and liabilities are used or liquidated. Management believes that all deferred tax assets will be realized, and therefore, no valuation allowance has been recorded.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition

The Cooperative derives its revenues primarily from the sale of grocery products to its customers through its retail store location in Moscow. 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 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 when management has determined that 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 2019 and 2018. The Cooperative's contract liabilities from gift card sales for 2019 and 2018 were as follows:

	2019	2018
Beginning of year	$ 60,894	$ 58,422
End of year	71,410	60,894

These amounts were recorded as a component of other current liabilities on the balance sheets.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Advertising

Advertising costs are expensed as incurred. Advertising expenses for 2019 and 2018 were $32,235 and $33,804.

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 revenues and expenses. Actual results could differ from those estimates.

Adoption of New Accounting Guidance

On May 28, 2014, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606). The ASU and all subsequently issued clarifying ASUs supersedes the revenue recognition requirements and most industry-specific guidance in U.S. generally accepted accounting principles. The core principle of the new guidance is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new guidance also includes a cohesive set of disclosure requirements that will provide users of the financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers.

The Cooperative adopted the requirements of the new guidance as of January 1, 2019, using the modified retrospective method of transition. The majority of the Cooperative's revenue is recognized at a point in time based on the transfer of control. In addition, the majority of the Cooperative's contracts do not contain variable consideration and contract modifications are generally minimal. Based on the Cooperative's evaluation of whether the Cooperative acts as principal or agent in certain vendor arrangements where the purchase and sale of inventory are virtually simultaneous, it has determined that it will continue to record revenue and related costs on a gross basis for the arrangements.

The adoption of the new guidance did not have a significant impact on the Cooperative's financial statements. The majority of the Cooperative's revenue arrangements generally consist of a single performance obligation, which is to transfer goods. Based on the Cooperative's evaluation process, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new guidance.

Date of Management's Review

Management has evaluated subsequent events through July 21, 2020, date which the financial statements were available to be issued.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsequent Events

The COVID-19 outbreak in the United States which escalated in March 2020 has resulted in reduced customer traffic and the temporary reduction of operating hours for the Cooperative's store. These developments are expected to result in lower sales and gross margin compared to historical results. However, the related financial impact and duration cannot be reasonably estimated at this time.

In May 2020, the Cooperative applied for a Paycheck Protection Program loan to help cover payroll costs, rent, and utilities during the COVID-19 outbreak. The Cooperative received a loan from this program in the amount of $553,838. The loan may be forgiven as long as the loan is used keep employees and pay eligible costs over the twenty four weeks after receiving the loan.

NOTE 2 – EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements at December 31, 2019 and 2018 consisted of the following:

	2019	2018
Equipment	$ 1,325,951	$ 1,300,331
Leasehold improvements	1,374,572	1,270,465
Construction in progress	120,099	21,413
Equipment and leasehold improvements	2,820,622	2,592,209
Less accumulated depreciation	1,633,487	1,415,133
Equipment and leasehold improvements, net	$ 1,187,135	$ 1,177,076

NOTE 3 – EQUITY AND DEPOSITS IN OTHER COOPERATIVES

Equity and deposits in other cooperatives at December 31, 2019 and 2018 consisted of the following:

	2019	2018
National Co+op Grocers	$ 142,935	$ 137,297
Frontier Natural Products Co-op	6,131	4,947
Maple Valley Cooperative	25	25
Equity and deposits in other cooperatives	$ 149,091	$ 142,269

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 be redeemed at face value only at the discretion of the other organizations' boards of directors.

NOTE 4 – NOTES PAYABLE

Notes payable at December 31, 2019 and 2018 consisted of the following:

	2019	2018
5.25% note payable to a credit union, secured by a vehicle. Monthly payments of principal and interest of $533 began November 2019. The note matures October 2024.	$ 27,217	$ -
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.	450,680	527,388
Notes payable	477,897	527,388
Current portion of notes payable	(85,835)	(76,708)
Notes payable net of current portion	$ 392,062	$ 450,680

Future minimum principal payments are as follows:

2020	$ 85,835
2021	90,968
2022	96,085
2023	101,490
2024	103,519
Notes payable	$ 477,897

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 – 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 $24,974 and $29,730 for the years ended December 31, 2019 and 2018.

NOTE 7 – LEASING ARRANGEMENTS

Operating Leases

The Cooperative leases retail space under an operating lease that expires March 2035. Monthly payments are $14,199, 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. The lease has a five-year extension option available.

In December 2018, the Cooperative entered into a lease for additional retail space. The lease was extended through November 2020. Monthly payments are $1,600.

Rent expense under these leases for 2019 and 2018 was $183,391 and $155,353.

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

2020	$	172,874
2021		153,051
2022		157,643
2023		162,372
2024		167,243
Thereafter		2,031,379
Total	$	2,844,562

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 at December 31, 2019 and 2018 was $5,304 and $14,796, net of accumulated depreciation of $3,094 and $6,936, respectively. Depreciation of the assets under capital lease is included in depreciation expense.

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

2020	$	1,242
Less amount representing interest		(143)
Present value of net minimum lease payments		1,099
Current portion of capital lease obligation		1,099
Capital lease obligation less current portion	$	-

NOTE 8 – CONCENTRATIONS

Purchasing Agreement

The Cooperative has an agreement through National Co+op Grocers (NCG) with United Natural Foods, Inc. (UNFI). The Cooperative agrees to use UNFI as its primary grocery supplier in exchange for additional purchase discounts. UNFI provides approximately 44% 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 of NCG, is a member of the Joint Liability Fund (JLF) coordinated by NCG. At December 31, 2019 and 2018, the Cooperative had a deposit with JLF for $26,879 and $25,675. 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.

Credit Risk

The Cooperative maintains cash balances at several financial institutions in Idaho. The Federal Deposit Insurance Corporation or the National Credit Union Association insures accounts at each institution up to $250,000. At December 31, 2019, the Cooperative's cash balances were fully insured. At December 31, 2018, the Cooperative had uninsured cash balances of approximately $50,000.

NOTE 9 – INCOME TAXES

The provision for income taxes for 2019 and 2018 consisted of the following:

	2019	2018
Current income tax expense		
Federal	$ -	$ -
Idaho	-	(30)
Deferred income tax benefit	21,500	39,000
Provision for income taxes	$ 21,500	$ 38,970

The Cooperative's deferred tax asset at December 31, 2019 and 2018 consisted of the following:

	2019	2018
Depreciation	$ 53,000	$ 39,000
Net operating loss carryforward	18,000	15,500
Charitable contribution carryforward	5,000	-
Deferred tax asset	$ 76,000	$ 54,500

At December 31, 2019, the Cooperative had a net operating loss carryforward of approximately $70,000 that can be used to offset future federal and state taxable income and does not expire.