FINANCIAL STATEMENTS

December 31, 2021 and 2020

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Wegner CPAs

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, 2021 and 2020, 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 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 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.

We are required to be independent of Moscow Food Co-op and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our reviews.

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
August 15, 2022

MOSCOW FOOD CO-OP
BALANCE SHEETS
December 31, 2021 and 2020

	2021	2020
ASSETS		
CURRENT ASSETS		
Cash	$ 766,533	$ 576,869
Certificates of deposit	315,187	313,378
Accounts receivable	22,155	24,714
Prepaid expenses	40,086	54,198
Inventory	433,730	430,570
Total current assets	1,577,691	1,399,729
Equipment and leasehold improvements, net	903,441	1,106,216
OTHER ASSETS		
Security deposit	11,463	11,463
Equity and deposits in other cooperatives	158,632	148,184
Deferred tax asset	171,000	172,000
Total other assets	341,095	331,647
Total assets	$ 2,822,227	$ 2,837,592
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	$ 225,133	$ 182,875
Accrued personnel	109,452	109,702
Current portion of capital lease obligation	3,366	3,366
Current portion of notes payable	90,435	90,906
Other current liabilities	121,122	115,060
Total current liabilities	549,508	501,909
LONG-TERM LIABILITIES		
Capital lease obligation less current portion	7,012	10,378
Notes payable less current portion	193,603	854,703
Total long-term liabilities	200,615	865,081
Total liabilities	750,123	1,366,990
OWNERS' EQUITY		
Owners' equity	1,268,450	1,212,620
Retained patronage dividends	317,969	317,969
Retained earnings (accumulated deficit)	485,685	(59,987)
Total owners' equity	2,072,104	1,470,602
Total liabilities and owners' equity	$ 2,822,227	$ 2,837,592

See accompanying notes and independent accountant’s review report.

MOSCOW FOOD CO-OP
STATEMENTS OF INCOME
Years Ended December 31, 2021 and 2020

	2021		2020	
	Amount	Percent	Amount	Percent
SALES REVENUE				
Sales	$ 10,742,150	103.42	$ 10,652,957	103.26
Less discounts	355,581	3.42	336,372	3.26
Net sales	10,386,569	100.00	10,316,585	100.00
Cost of goods sold	6,344,827	61.09	6,420,146	62.23
Gross profit	4,041,742	38.91	3,896,439	37.77
OPERATING EXPENSES				
Personnel	2,776,956	26.74	3,016,845	29.24
Occupancy	464,927	4.48	456,297	4.42
Operations	422,913	4.07	415,905	4.03
Depreciation	212,431	2.05	247,007	2.39
Administrative	199,370	1.92	199,440	1.93
Marketing and outreach	19,577	0.19	41,929	0.41
Governance	15,107	0.15	14,462	0.14
Total operating expenses	4,111,281	39.60	4,391,885	42.56
Net loss from operations	(69,539)	(0.69)	(495,446)	(4.79)
OTHER INCOME (EXPENSES)				
Paycheck Protection Program income	553,838	5.33	-	-
Other income	83,877	0.83	161,443	1.58
Interest expense	(18,194)	(0.18)	(22,765)	(0.22)
Loss on disposal of equipment	(3,036)	(0.03)	(8,193)	(0.08)
Total other income (expense)	616,485	5.95	130,485	1.28
Net income (loss) before income taxes	546,946	5.26	(364,961)	(3.51)
Provision for income taxes	(1,274)	(0.01)	96,000	0.90
Net income (loss)	$ 545,672	5.25	$ (268,961)	(2.61)

See accompanying notes and independent accountant's review report.

MOSCOW FOOD CO-OP
STATEMENTS OF OWNERS' EQUITY
Years Ended December 31, 2021 and 2020

	Owners' Equity	Retained Patronage Dividends	Retained Earnings (Accumulated Deficit)	Total Owners' Equity
Balance at December 31, 2019	$ 1,156,770	$ 317,969	$ 208,974	$ 1,683,713
Stock issued	55,850	-	-	55,850
Net loss	-	-	(268,961)	(268,961)
Balance at December 31, 2020	1,212,620	317,969	(59,987)	1,470,602
Stock issued	55,960	-	-	55,960
Stock redeemed	(130)	-	-	- (130)
Net income	-	-	545,672	545,672
Balance at December 31, 2021	$ 1,268,450	$ 317,969	$ 485,685	$ 2,072,104

See accompanying notes and independent accountant’s review report.

MOSCOW FOOD CO-OP
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 545,672	$ (268,961)
Adjustments to reconcile net income (loss) to net cash flows from operating activities		
Depreciation	212,431	247,007
Loss on disposal of equipment	3,036	8,193
Change in deferred taxes	1,000	(96,000)
Gain on extinguishment of debt	(553,838)	-
(Increase) decrease in assets		
Accounts receivable	2,559	2,933
Prepaid expenses	14,112	14,100
Inventory	(3,160)	9,408
Security deposit	-	105
Equity and deposits in other cooperatives	(10,448)	907
Increase (decrease) in liabilities		
Accounts payable	42,258	(100,605)
Accrued personnel	(250)	(92,466)
Other current liabilities	6,062	(13,761)
Net cash flows from operating activities	259,434	(289,140)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of and interest retained in certificates of deposit	(106,878)	(6,073)
Redemption of certificates of deposit	105,069	105,069
Purchases of equipment and leasehold improvements	(12,692)	(157,453)
Net cash flows from investing activities	(14,501)	(58,457)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	-	553,838
Principal payments on notes payable	(107,733)	(86,126)
Principal payments on capital lease obligation	(3,366)	(4,183)
Proceeds from stock issued	55,960	55,850
Payments on stock redemptions	(130)	-
Net cash flows from financing activities	(55,269)	519,379
Net change in cash	189,664	171,782
Cash at beginning of year	576,869	405,087
Cash at end of year	$ 766,533	$ 576,869
SUPPLEMENTAL DISCLOSURES		
Cash paid for interest	$ 18,194	$ 22,765
Noncash investing and financing transactions		
Equipment financed with capital lease	-	16,828

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, 2021 and 2020, management has determined based on historical experience that all amounts are fully collectible, and no allowance for doubtful accounts has been recorded.

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 carryforward 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 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. Gift card breakage income recorded as revenue for 2021 and 2020 were $5,876 and $15,482. The Cooperative's contract liabilities from gift card sales for 2021 and 2020 were as follows:

	2021	2020
Beginning of year	$ 60,860	$ 71,410
End of year	59,493	60,860

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 2021 and 2020 were $7,254 and $21,004.

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.

Date of Management's Review

Management has evaluated subsequent events through August 15, 2022, the date which the financial statements were available to be issued.

NOTE 2 – EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Equipment and leasehold improvements at December 31, 2021 and 2020 consisted of the following:

	2021	2020
Equipment	$ 1,461,757	$ 1,496,485
Leasehold improvements	1,402,048	1,402,048
Construction in progress	14,203	17,542
Equipment and leasehold improvements	2,878,008	2,916,075
Less accumulated depreciation	1,974,567	1,809,859
Equipment and leasehold improvements, net	$ 903,441	$ 1,106,216

NOTE 3 – RETIREMENT PLAN

The Cooperative sponsors a 401(k) retirement 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. Retirement expense was $25,592 and $22,848 for 2021 and 2020.

NOTE 4 – EQUITY AND DEPOSITS IN OTHER COOPERATIVES

Equity and deposits in other cooperatives at December 31, 2021 and 2020 consisted of the following:

	2021	2020
National Co+op Grocers	$ 149,417	$ 140,983
Frontier Natural Products Co-op	9,190	7,176
Maple Valley Cooperative	25	25
Equity and deposits in other cooperatives	$ 158,632	$ 148,184

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 5 – INCOME TAXES

The provision for income taxes for 2021 and 2020 consisted of the following:

	2021	2020
Current income tax expense		
Federal	$ (254)	$ -
Idaho	(20)	-
Deferred income tax (expense) benefit	(1,000)	96,000
Provision for income taxes	$ (1,274)	$ 96,000

The Cooperative's deferred tax asset at December 31, 2021 and 2020 consisted of the following:

	2021	2020
Depreciation	$ 74,000	$ 69,000
Net operating loss carryforward	97,000	98,000
Charitable contribution carryforward	-	5,000
Deferred tax asset	$ 171,000	$ 172,000

At December 31, 2021, the Cooperative had federal net operating loss carryforwards of approximately $365,000 and state net operating loss carryforwards of approximately $378,000 that can be used to offset future taxable net income. The federal net operating loss carryforwards do not expire. The state net operating loss carryforwards expire beginning in 2038.

NOTE 6 – NOTES PAYABLE

Notes payable at December 31, 2021 and 2020 consisted of the following:

	2021	2020
Unsecured note payable to Banner Bank at 1% interest under the Paycheck Protection Program (PPP) as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act implemented by the United States Small Business Administration (SBA). The Cooperative received notification of forgiveness in July 2021.	$ -	$ 553,838
5.25% note payable to a credit union, secured by a vehicle. Monthly payments of principal and interest of $533 began November 2019. Paid in December 2021.	-	22,127
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.	284,038	369,644
Notes payable	284,038	945,609
Current portion of notes payable	(90,435)	(90,906)
Notes payable net of current portion	$ 193,603	$ 854,703

Future minimum principal payments are as follows:

2022	$ 90,435
2023	95,536
2024	98,067
Notes payable	$ 284,038

NOTE 7 – LEASING ARRANGEMENTS

Operating Leases

The Cooperative leases retail space under an operating lease that expires March 2035. Monthly payments involve a base rent of $12,464 rent plus amounts for 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 through August 2020. The lease has been extended through August 2025. Monthly rental payments are $835.

NOTE 7 – LEASING ARRANGEMENTS (continued)

In December 2018, the Cooperative entered into another lease for additional retail space. The lease has been extended through November 2024. Monthly payments are $1,650.

Rent expense under these leases for 2021 and 2020 was $171,542 and $168,049.

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

2022	$ 188,138
2023	193,767
2024	197,613
2025	182,281
2026	177,429
Thereafter	1,681,690
Total	$ 2,620,918

Capital Leases

The Cooperative acquired a piece of equipment through a capital lease in 2020. Monthly payments on the lease are $280. The cost of the equipment recorded under the capital lease at December 31, 2021 was $16,829, with accumulated depreciation of $6,451. The interest component is immaterial and not recorded in the financial statements.

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

2021	$ 3,366
2022	3,366
2023	3,366
2024	280
Present value of net minimum lease payments	10,378
Current portion of capital lease obligation	3,366
Capital lease obligation less current portion	$ 7,012

NOTE 8 – 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 9 – 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 cost 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, 2021 and 2020, the Cooperative had a deposit with JLF for $26,582 and $27,909. 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, 2021 and 2020, the Cooperative had uninsured cash balances of approximately $104,000 and $65,000.

NOTE 10 – PAYCHECK PROTECTION PROGRAM

In May 2020, the Cooperative received funding from the Paycheck Protection Program (PPP) as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) implemented by the United States SBA. These funds are 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 to be repaid over 24 months at 1% interest. Because the Cooperative was able to meet certain criteria set forth by the CARES Act, the Cooperative received complete forgiveness of its loan in July 2021. As such, $553,838 of revenue was recorded to remove the associated liability.

The Cooperative must retain PPP documentation in its files for six years after the date the loan is forgiven or repaid in full and permit authorized representatives of SBA to access such files upon request. SBA may review any loan at any time at its discretion. Therefore, SBA may review the Cooperative's good-faith certification concerning the necessity of its loan request, whether the Cooperative calculated the loan amount correctly, whether the Cooperative used loan proceeds for the allowable uses specified in the CARES Act, and whether the Cooperative is entitles to loan forgiveness in the amount claimed on its application. If SBA determine the Cooperative was ineligible for the loan or for full forgiveness in whole or in part, SBA will seek repayment of the outstanding loan balance.