

FIDDLEHEADS NATURAL FOOD COOPERATIVE, INC.

Financial Statements

For The Year Ended December 31, 2014

Fiddleheads Natural Food Cooperative, Inc.

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December 31, 2014

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## ALDRICH, PERKINS, MULCAHY & HEAP, LLC

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CERTIFIED PUBLIC ACCOUNTANTS

### INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Fiddleheads Natural Food Cooperative, Inc.

We have audited the accompanying financial statements of Fiddleheads Natural Food Cooperative, Inc which comprise the balance sheet as of December 31, 2014, and the related statements of income and expenses, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the financial statements.

#### **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.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosure in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### **Basis for Qualified Opinion**

We did not observe the physical inventory as of December 31, 2013, since that date was prior to our initial engagement as auditors for the Company, and the Company's records do not permit adequate retroactive tests of inventory. In addition no other balance sheet accounts were tested as of December 31, 2013. Consequently, we were unable to determine whether any adjustments were necessary in the statements of income and expenses, changes in stockholders' equity, or cash flows.

In our opinion, except for the possible effects on the statements of income and expenses, changes in stockholders' equity and cash flows, of the matters discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph, present fairly, in all material respects, the financial position of Fiddleheads Natural Food Cooperative, Inc. as of December 31, 2014 and the results of its operations, and its cash flows in accordance with accounting principles generally accepted in the United States of America.

*ALDRICH, PERKINS, MULCAHY & HEAP, LLC*

Waterford, Ct.

May 5, 2015

Fiddleheads Natural Food Cooperative, Inc.  
Balance Sheet  
As of December 31, 2014

ASSETS

CURRENT ASSETS

Cash	\$ 120,508
Accounts receivable	19,709
Inventory	<u>188,221</u>
Total Current Assets	<u>328,438</u>

PROPERTY AND EQUIPMENT

Fixtures and equipment	268,733
Leasehold improvements	<u>204,384</u>
	473,117
Less: Accumulated depreciation	<u>91,173</u>
Net Property and Equipment	<u>381,944</u>

OTHER ASSETS

Intangible assets (net of amortization of \$1,473)	
Total Other Assets	<u>9,127</u>

TOTAL ASSETS	<u>\$ 719,509</u>
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LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES

Current maturities of long-term debt	\$ 24,257
Notes payable - members	24,500
Accounts payable	110,574
Accrued expenses	<u>76,605</u>
Total Current Liabilities	235,936

LONG TERM LIABILITIES

Long-term debt less current maturities	173,894
Notes payable - members	13,000
Deferred income taxes	<u>5,209</u>
Total Liabilities	<u>428,039</u>

STOCKHOLDERS' EQUITY

Common stock - 5,000 voting shares authorized, 2,147 shares issued and outstanding	53,675
Additional paid in capital	156,701
Retained earnings	<u>81,094</u>
Total Stockholders' Equity	<u>291,470</u>

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 719,509</u>
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Fiddleheads Natural Food Cooperative, Inc.  
Statement of Income and Expenses  
For the Year Ended December 31, 2014

INCOME	
Product Sales	\$ 3,299,710
COST OF GOODS SOLD	<u>2,242,682</u>
GROSS PROFIT	<u>1,057,028</u>
EXPENSES	
Salaries and wages	573,033
Other personnel expenses	100,500
Occupancy expenses	170,112
Store expansion	9,961
Depreciation and Amortization	33,787
Operating expenses	106,174
Overhead expenses	83,473
Special events costs	3,690
Travel & meetings	14,923
Non personnel costs	8,293
Business expenses	<u>2,979</u>
Total Expenses	<u>1,106,925</u>
LOSS FROM OPERATIONS	<u>(49,897)</u>
OTHER INCOME ( EXPENSE)	
Other income	10,208
Interest expense	<u>(13,047)</u>
Total Other Income (Expense)	<u>(2,839)</u>
LOSS BEFORE TAXES	(52,736)
PROVISION FOR INCOME TAXES	<u>(12,890)</u>
NET LOSS	<u>\$ (39,846)</u>

Fiddleheads Natural Food Cooperative, Inc.  
Statement of Changes in Stockholders' Equity  
For the Year Ended December 31, 2014

	<u>Total</u>	<u>Common Stock</u>	<u>Additional Paid in Capital</u>	<u>Retained Earnings</u>
BALANCE DECEMBER 31,2013 AS PREVIOUSLY STATED	\$ 215,353	\$ 28,225	\$ 146,607	\$ 40,521
ADJUSTMENTS TO GAAP				
Adjust accumulated depreciation	98,768			98,768
Record deferred taxes	(18,349)	-	-	(18,349)
BALANCE DECEMBER 31,2013 AS RESTATED	<u>295,772</u>	<u>28,225</u>	<u>146,607</u>	<u>120,940</u>
Record additional stock and paid in capital	35,544	25,450	10,094	
Net Loss	(39,846)			(39,846)
BALANCE DECEMBER 31, 2014	<u><u>\$ 291,470</u></u>	<u><u>\$ 53,675</u></u>	<u><u>\$ 156,701</u></u>	<u><u>\$ 81,094</u></u>

Fiddleheads Natural Food Cooperative, Inc.  
Statement of Cash Flows  
For the Year Ended December 31, 2014

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Net Loss	\$ (39,846)
Adjustments to Reconcile Net Loss to Net Cash Used by Operating Activities:	
Depreciation and amortization	33,787
Increase in accounts receivable	(19,709)
Decrease in inventory	11,652
Decrease in deferred income taxes	(13,140)
Decrease in accounts payable	(3,405)
Increase in accrued expenses	45,645
TOTAL ADJUSTMENTS	<u>54,830</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>14,984</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Acquisition of property and equipment	<u>(51,092)</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(51,092)</u>
 <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from long- term debt	42,277
Principal payments on long-term debt	(67,207)
Principal payments on loans payable - members	(2,000)
Collections from members - stock and paid in capital	<u>35,544</u>
NET CASH PROVIDED BY FINANCING ACIVITIES	<u>8,614</u>
 NET DECREASE IN CASH AND CASH EQUIVALENTS	 (27,494)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>148,002</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 120,508</u>



Fiddleheads Natural Food Cooperative, Inc  
Notes to Financial Statements  
For The Year Ended December 31, 2014

**NOTE 1: ACCOUNTING POLICIES**

Nature of Business – The Company is a retail grocery store specializing in natural foods. The Company operating structure is that of a cooperative.

Basis of Accounting – The Company’s policy is to prepare its financial statements on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America. Revenue is recognized when merchandise is sold.

Date of Management’s Review – Management has evaluated subsequent events through May 5, 2015, the date on which the financial statements were available to be issued.

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Fair Value of Financial Instruments – The Company’s financial instruments consist of cash in bank, accounts payable and long-term debt. These financial instruments are carried at cost, which approximates fair value.

Inventory – The Company values inventory at cost using the first-in, first-out method.

Shipping and Handling Costs -- It is the Company’s policy to classify shipping and handling (freight costs) as part of cost of sales expense in the statement of income and expenses.

Advertising – The Company expenses advertising costs as incurred. Advertising cost of \$41,263 is included in these financial statement as part of \$83,473 of overhead expense.

Amortization – The Company amortizes loan closing costs over a fifteen year period using the straight-line method.

Fiddleheads Natural Food Cooperative, Inc  
Notes to Financial Statements  
For The Year Ended December 31, 2014

**NOTE 1: ACCOUNTING POLICIES (cont.)**

Property and Depreciation – Property is recorded at cost. For financial reporting purposes, depreciation is provided by the straight line method over estimated useful lives as follows:

	<u>Years</u>
Fixtures and equipment	5-15
Leasehold improvements	10-39

Income Taxes – 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 income taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to depreciable assets as a result of the use of different depreciation methods and lives for financial statement and income tax purposes. Also, the deferred tax liability is reduced by the expected income tax benefit from future utilization of a net operating loss carryover for income tax purposes. The Company’s open audit periods are generally for 3 years after the tax returns are filed. In evaluating the Company’s tax provisions and accruals, future taxable income, and the reversal of temporary differences, interpretations, and tax planning strategies are considered.

Sales Taxes – The Company records revenues net of any sales taxes collected.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses

**NOTE 2: PRIOR PERIOD ADJUSTMENT:**

The financial statements have been re-stated as of December 31, 2013 to reflect a presentation in accordance with accounting principles generally accepted in The United States of America. The restated items include reporting of depreciation by the straight-line method (rather than the income tax method) and recording a deferred income tax liability for the resulting reduced depreciation. The effects on the December 31, 2013 balance sheet are as follows:

Decrease accumulated depreciation	\$98,768
Increase deferred income tax liability	<u>(18,349)</u>
Increase retained earnings	<u>\$80,419</u>

Fiddleheads Natural Food Cooperative, Inc.  
Notes to Financial Statements  
For The Year Ended December 31, 2014

**NOTE 3: PROPERTY AND EQUIPMENT**

At December 31, 2014, details of property and equipment are as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Leasehold Improvements	\$ 204,384	\$32,399	\$ 171,985
Fixtures and Equipment	<u>268,733</u>	<u>58,774</u>	<u>209,959</u>
	<u>\$473,117</u>	<u>\$ 91,173</u>	<u>\$ 381,944</u>

Depreciation amounted to \$33,080 for the year ended December 31, 2014.

**NOTE 4: LONG-TERM DEBT**

At December 31, 2014 long-term debt consists of the following:

Payable to the cooperative fund of New England, Inc, in monthly installments of \$1,524 Principal and interest at 6.5% per annum. Final payment due January 2020.....	\$ 172,663
Payable to Southeastern Connecticut Enterprise Region in monthly installments of \$1,841.65 principal and interest at 4.0% per annum. Final payment due April 2015.....	6,499
Payable to Connecticut Light & Power Co, in monthly installments of \$401.57 principal, no interest. Final payment due September 2016.....	8,284
Payable to NCB Capital Impact, currently paying \$500 per month, with interest at 4.25% per annum.....	<u>10,705</u>
	198,151
Less: Current maturities of long – term debt.....	<u>24,257</u>
Long – term debt less current maturities.....	<u>\$ 173,894</u>

Fiddleheads Natural Food Cooperative, Inc.  
Notes to Financial Statements  
For The Year Ended December 31, 2014

**NOTE 4: LONG-TERM DEBT (Continued)**

Maturities of long – term debt in each of the next five years are as follows:

<u>Year ending</u>	<u>Amount</u>
December 31, 2015	\$ 24,257
December 31, 2016	16,289
December 31, 2017	8,293
December 31, 2018	8,849
December 31, 2019	<u>140,463</u>
	<u>\$ 198,151</u>

**NOTE 5: NOTES PAYABLE – MEMBERS**

The organization owes various note obligations to eight members. The notes are due at various dates with various interest rates. The note obligations total \$37,500 at December 31, 2014.

**NOTE 6: STOCKHOLDERS' EQUITY**

Common stock consists of 2,147 shares of stock fully paid for at \$25 per share. Each share is owned by different individuals representing a co-op form of organization.

Paid in capital consists of \$156,701 from fully paid and partially paid members. A fully paid membership costs \$150 of paid in capital plus \$25 of common stock.

Fiddleheads Natural Food Cooperative, Inc.  
Notes to Financial Statements  
For The Year Ended December 31, 2014

**NOTE 7: INCOME TAXES**

The Company accounts for income taxes whereby deferred taxes on temporary differences arising from assets and liabilities whose basis are different for financial reporting and income tax purposes. The Company had net basis in property and equipment of \$381,944 for book purposes and \$272,387 for income tax purposes resulting in a deferred tax liability. The Company has net operating losses available to carryover to apply to future taxable income in the amount of \$85,190 federal and \$73,413 state resulting in a deferred tax asset. The deferred tax benefit of these carryovers is a reduction of deferred tax liability, netting to \$5,209.

Income taxes are reflected in the financial statements as follow:

	<u>Total</u>	<u>Federal</u>	<u>State</u>
Liability - December 31, 2013	\$ 18,349	\$12,631	\$ 5,718
Deferred tax benefit – 2014	<u>(13,140)</u>	<u>(9,250)</u>	<u>(3,890)</u>
Liability – December 31, 2014	<u>\$ 5,209</u>	<u>\$ 3,381</u>	<u>\$ 1,828</u>
Income tax expense (benefit)			
Current -State tax	\$ 250		
Deferred Taxes			
Federal	(9,250)		
State	<u>(3,890)</u>		
	<u>\$(12,890)</u>		

**NOTE 8: OPERATING LEASE**

The Company leases it's facility on an operating lease which expires December 31, 2016, with two five year options to extend. Terms are \$6,000 per month through December 31, 2016. During September 2014 the company began occupying more space, and rent was informally increased to \$8,000 per month. Therefore the annual minimum obligation due for the years ending December 31, 2015 and 2016 is \$72,000 per year.

Fiddleheads Natural Food Cooperative, Inc.  
Notes to Financial Statements  
For The Year Ended December 31, 2014

**NOTE 9: CONTINGENCY**

An employee has filed a complaint regarding employment issues. At this time, the outcome of this complaint is not able to be determined.

**NOTE 10: SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION**

Cash paid during the period for:

Interest	\$ 13,047
Income taxes	250

**NOTE 11: RELATED PARTY TRANSACTIONS**

The company, typical of cooperative, has numerous related party transactions with many of its member owners.