

**BRIARPATCH COOPERATIVE
OF NEVADA COUNTY, INC.**

FINANCIAL STATEMENTS

December 31, 2022 (Audited) and 2021 (Reviewed)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
BriarPatch Cooperative of Nevada County, Inc.
Grass Valley, California

Opinion

We have audited the accompanying financial statements of BriarPatch Cooperative of Nevada County, Inc., (a California Cooperative), which comprise the balance sheet as of December 31, 2022, and the related statements of operations, owners' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of BriarPatch Cooperative of Nevada County, Inc. as of December 31, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of BriarPatch Cooperative of Nevada County, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Adoption of New Accounting Guidance

As discussed in Note 1 to the financial statements, BriarPatch Cooperative of Nevada County, Inc. adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842) and all subsequently issued clarifying ASUs as of January 1, 2022. Our opinion is not modified with respect to this matter.

Prior Period Financial Statements

The 2021 financial statements were reviewed by us, and our report thereon, dated March 18, 2022, stated we were not aware of any material modifications that should be made to those financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. However, a review is substantially less in scope than an audit and does not provide a basis for the expression of an opinion on the financial statements as a whole.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events considered in the aggregate, that raise substantial doubt about BriarPatch Cooperative of Nevada County, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standard will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosure in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 BriarPatch Cooperative of Nevada County, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about BriarPatch Cooperative of Nevada County, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Wegner CPAs LLP

Wegner CPAs, LLP
Madison, Wisconsin
March 21, 2023

BRIARPATCH COOPERATIVE OF NEVADA COUNTY, INC.
BALANCE SHEETS
December 31, 2022 (Audited) and 2021 (Reviewed)

	2022	2021
ASSETS		
CURRENT ASSETS		
Cash	\$ 3,512,400	\$ 6,297,319
Accounts receivable - net	81,471	167,986
Inventory	754,058	752,104
Prepaid expenses	297,913	159,712
Prepaid income taxes	50,901	-
Total current assets	4,696,743	7,377,121
Property and equipment - net	18,706,736	11,614,542
OTHER ASSETS		
Right-of-use asset	3,176,010	-
Deposits	3,384	46,862
Note receivable	30,466	36,095
Equity and deposit in National Cooperative Grocers	490,121	397,175
Total assets	\$ 27,103,460	\$ 19,471,795
LIABILITIES AND OWNERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 1,155,609	\$ 852,421
Accrued liabilities	1,456,065	729,860
Income taxes payable	-	8,055
Accrued patronage dividends	-	207,600
Current portion of lease liability	393,695	-
Current portion of notes payable	200,885	377,639
Total current liabilities	3,206,254	2,175,575
LONG-TERM LIABILITIES		
Lease liability less current portion	2,782,432	-
Notes payable less current portion and net loan fees	7,206,582	3,314,601
Deferred taxes - net	288,000	319,000
Total liabilities	13,483,268	5,809,176
OWNERS' EQUITY		
Ownership shares	2,290,282	2,182,972
Retained patronage dividends	7,866,567	7,958,203
Retained earnings	3,463,343	3,521,444
Total owners' equity	13,620,192	13,662,619
Total liabilities and owners' equity	\$ 27,103,460	\$ 19,471,795

See accompanying notes.

BRIARPATCH COOPERATIVE OF NEVADA COUNTY, INC.
STATEMENTS OF OPERATIONS
Years Ended December 31, 2022 (Audited) and 2021 (Reviewed)

	2022		2021	
	Amount	%	Amount	%
SALES REVENUE				
Sales - net	\$ 36,311,924	100.00	\$ 37,326,836	100.00
Cost of goods sold	21,893,831	60.29	22,238,136	59.58
Gross profit	14,418,093	39.71	15,088,700	40.42
OPERATING EXPENSES				
Salaries and wages	8,762,455	24.13	8,223,119	22.03
Payroll taxes and benefits	2,208,679	6.08	2,076,555	5.56
Depreciation	657,500	1.81	654,487	1.75
Supplies	654,414	1.80	693,370	1.86
Occupancy	644,590	1.78	531,584	1.42
Other operating expenses	598,485	1.66	532,437	1.44
Professional fees	397,442	1.09	427,072	1.14
Administrative expenses	217,174	0.60	176,591	0.47
Lease expense	193,999	0.53	123,091	0.33
Member services and promotions	181,445	0.50	222,619	0.60
Sponsorships and donations	124,309	0.34	155,517	0.42
Total operating expenses	14,640,492	40.32	13,816,442	37.02
Net income (loss) from operations	(222,399)	(0.61)	1,272,258	3.40
OTHER INCOME (EXPENSE)				
Other income	157,246	0.43	238,031	0.64
Interest expense	(137,438)	(0.38)	(153,784)	(0.41)
Net income (loss) before income taxes	(202,591)	(0.56)	1,356,505	3.63
Provision for income taxes	29,946	0.08	(141,637)	(0.38)
Net income (loss)	<u>\$ (172,645)</u>	<u>(0.48)</u>	<u>\$ 1,214,868</u>	<u>3.25</u>

See accompanying notes.

BRIARPATCH COOPERATIVE OF NEVADA COUNTY, INC.
STATEMENTS OF OWNERS' EQUITY
Years Ended December 31, 2022 (Audited) and 2021 (Reviewed)

	Ownership Shares	Retained Patronage Dividends	Retained Earnings	Total
Balance December 31, 2020	\$ 2,070,092	\$ 7,254,407	\$ 3,186,371	\$ 12,510,870
Issued	152,550	-	-	152,550
Redemptions	(39,670)	-	-	(39,670)
Patronage dividends	-	1,037,800	(1,037,800)	-
Accrued patronage dividends	-	(207,600)	-	(207,600)
Net income	-	-	1,214,868	1,214,868
Unclaimed patronage dividends	-	(126,404)	158,005	31,601
Balance December 31, 2021	2,182,972	7,958,203	3,521,444	13,662,619
Issued	152,290	-	-	152,290
Redemptions	(44,980)	-	-	(44,980)
Net loss	-	-	(172,645)	(172,645)
Unclaimed patronage dividends	-	(91,636)	114,544	22,908
Balance December 31, 2022	<u>\$ 2,290,282</u>	<u>\$ 7,866,567</u>	<u>\$ 3,463,343</u>	<u>\$ 13,620,192</u>

See accompanying notes.

BRIARPATCH COOPERATIVE OF NEVADA COUNTY, INC.
STATEMENTS OF CASH FLOWS
Years Ended December 31, 2022 (Audited) and 2021 (Reviewed)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (172,645)	\$ 1,214,868
Adjustments to reconcile net income (loss) to net cash flows from operating activities		
Depreciation	657,500	654,487
Amortization of right-of-use asset	21,748	-
Deferred taxes	(31,000)	87,000
Loss on disposal of assets	6,955	-
Issuance of employee ownership shares	23,400	22,600
Redemption of employee ownership shares	(22,200)	(22,000)
(Increase) decrease in assets		
Accounts receivable	86,515	(117,480)
Inventory	(1,954)	52,675
Prepaid expenses	(138,201)	(23,238)
Prepaid income taxes	(50,901)	6,992
Deposits	43,478	-
Equity and deposit in National Cooperative Grocers	(92,946)	(55,098)
Increase (decrease) in liabilities		
Accounts payable	303,188	(111,283)
Accrued liabilities	726,205	(600)
Income taxes payable	(8,055)	(23,815)
Lease liability	(158,869)	-
Net cash flows from operating activities	1,192,218	1,685,108
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(7,756,649)	(1,649,082)
Payments under operating leases	157,940	-
Collections of note receivable	5,629	2,928
Net cash flows from investing activities	(7,593,080)	(1,646,154)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments under financing leases	(20,702)	-
Payment of debt issuance costs	(67,850)	(4,950)
Amortization of debt issuance costs	5,528	2,363
Redemption of debt issuance costs	18,072	-
Issuance of notes payable	4,155,187	-
Principal payments on notes payable	(395,710)	(377,846)
Patronage dividends paid	(184,692)	(347,399)
Issuance of consumer ownership shares	128,890	129,950
Redemption of consumer ownership shares	(22,780)	(17,670)
Net cash flows from financing activities	3,615,943	(615,552)
Net change in cash	(2,784,919)	(576,598)
Cash - beginning of year	6,297,319	6,873,917
Cash - end of year	\$ 3,512,400	\$ 6,297,319

See accompanying notes.

BRIARPATCH COOPERATIVE OF NEVADA COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 (Audited) and 2021 (Reviewed)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

BriarPatch Cooperative of Nevada County, Inc. (Cooperative), is a consumers' cooperative grocery store located in the city of Grass Valley in Nevada County, California which seeks to be a leader in social, environmental, and fiscal responsibility among businesses locally and food cooperatives nationally. The Cooperative uses its economic power within the community to support those products and practices that promote its goals and principles. The Cooperative intends to open a second store in Auburn, California in summer 2023.

Revenue Recognition

The Cooperative derives its revenues primarily from the sale of retail grocery products. Revenues are recognized at a point in time when control of these products is transferred to its customers, which the Cooperative has determined is at the point of sale. Sales and other taxes the Cooperative collects concurrent with revenue-producing activities are excluded from revenue. 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 revenue and related cost on a gross basis for these arrangements. The State of California imposes sales tax 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.

The Cooperative does not recognize revenue when it sells its own gift cards and gift certificates (collectively "gift cards"). Rather, the Cooperative records a deferred revenue liability equal to the amount received. Revenue is then recognized when the gift cards are redeemed to purchase the Cooperative's products. The Cooperative's gift cards do not expire. 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. The Cooperative's gift card revenue liability was \$134,097 and \$142,747 as of December 31, 2022 and 2021. These amounts are recorded as a component of accrued liabilities on the balance sheets.

Accounts Receivable

The Cooperative uses the allowance method to account for uncollectible accounts receivable. The allowance for doubtful accounts is based on management's estimate of potential uncollectible accounts receivable based on historical experience. When accounts become uncollectible, they are charged to the reserve. There were no accounts that were considered uncollectible as of December 31, 2022 and 2021.

BRIARPATCH COOPERATIVE OF NEVADA COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 (Audited) and 2021 (Reviewed)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventory

Inventory, which consists of grocery items held for resale, is valued at the lower of cost or net realizable value.

Property and Equipment

Property and equipment are capitalized at cost and depreciated using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 39 years.

Leases

The Cooperative does not recognize short-term leases in the balance sheet. For these leases, the Cooperative recognizes the lease payments in the results of operations on a straight-line basis over the lease term and variable lease payments in the period in which the obligation for those payments is incurred. The Cooperative also does not separate nonlease components from lease components for all classes of underlying assets and instead accounts for each separate lease component and the nonlease components associated with that lease component as a single lease component. If the rate implicit in the lease is not readily determinable, the Cooperative uses a risk-free rate as the discount rate for the lease for all classes of underlying assets.

Adoption of New Accounting Guidance

On February 25, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02, *Leases (Topic 842)*. The guidance in this Update and all subsequently issued clarifying Updates supersede the guidance in FASB Accounting Standards Codification (ASC) Topic 840, Leases, and creates FASB ASC Topic 842, Leases. The main difference between previous guidance and Topic 842 is the recognition of assets and liabilities by lessees for those leases classified as operating leases. A lessee should recognize in the balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. Also, under Topic 842, disclosures are required by lessees and lessors to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flows arising from leases.

The Cooperative adopted the requirements of Topic 842 as of January 1, 2022, using the optional transition method that allows the Cooperative to initially apply the new guidance at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Cooperative's reporting for the year ended December 31, 2021, is in accordance with the previous guidance in Topic 840.

The Cooperative elected the package of practical expedients permitted under the transition guidance within Topic 842. This package allowed the Cooperative to account for its leases that commenced before the adoption date without reassessing whether any expired or existing contracts are or contain leases, the lease classification for any expired or existing leases, and initial direct costs for any existing leases.

BRIARPATCH COOPERATIVE OF NEVADA COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 (Audited) and 2021 (Reviewed)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The adoption of Topic 842 resulted in the recognition of operating lease right-of-use assets of \$3,286,931 and operating lease liabilities of \$3,128,991 and finance lease right-of-use assets and finance lease liabilities of \$47,019 as of January 1, 2022. The adoption of Topic 842 did not have a material effect on the Cooperative's results of operations, cash flows, or debt covenants.

Equity and Deposit in National Cooperative Grocers

The Cooperative is a member of National Cooperative Grocers (NCG). Membership and retained rebates are stated at cost. The equity and deposit are required to maintain participation in the purchase of merchandise at a reduced cost. The amounts are not marketable and may only be redeemed at face value at the discretion of the other cooperative's board of directors.

Advertising

Advertising costs are expensed as incurred. Advertising expense for 2022 and 2021 was \$39,007 and \$39,263.

Estimates

Management uses estimates and assumptions in preparing the 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.

Income Tax Status

The Cooperative is taxed on non-patronage earnings and any patronage earnings not paid or allocated to the owners. 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 differences between the basis of assets and liabilities for financial statement and income tax purposes. The differences relate primarily to differences in depreciation methods for financial statement and income tax purposes (using accelerated depreciation methods for income tax purposes), and a net operating loss carryforward available to offset taxable income in future years. 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.

Debt Issuance Costs

Debt Issuance costs of \$95,960 are being amortized over the terms of the underlying loans. Amortization for 2022 and 2021 was \$5,528 and \$2,363. Accumulated amortization at December 31, 2022 and 2021 was \$11,271 and \$23,815. Amortization is recorded as interest expense in the statements of operations.

BRIARPATCH COOPERATIVE OF NEVADA COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 (Audited) and 2021 (Reviewed)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Date of Management's Review

Management has evaluated subsequent events through March 21, 2023, the date which the financial statements were available to be issued.

NOTE 2 – NOTE RECEIVABLE

The Cooperative has loaned \$50,000 to the NCG Loan Fund to provide subsidiary loans to other cooperatives. The funds are used to make commercial loans to new and/or existing grocery cooperatives in the United States for store acquisition, predevelopment, improvement, and/or expansion. These notes pay 3% interest to the Cooperative and mature in 2026 and 2027.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Land	\$ 195,904	\$ 195,904
Land improvements	2,714,641	2,714,641
Building and improvements	9,465,749	9,465,749
Machinery and equipment	3,284,333	3,140,710
Construction in process	<u>9,181,788</u>	<u>1,598,991</u>
Property and equipment	24,842,415	17,115,995
Less accumulated depreciation	<u>6,135,679</u>	<u>5,501,453</u>
Property and equipment - net	<u><u>\$ 18,706,736</u></u>	<u><u>\$ 11,614,542</u></u>

NOTE 4 – PATRONAGE DIVIDENDS

The Cooperative allocates patronage dividends to its owners at the discretion of, and in proportions determined by, its Board of Directors. For 2021, the Cooperative declared a patronage dividend of \$1,037,800. The Cooperative did not declare a patronage dividend for 2022.

NOTE 5 – LINE OF CREDIT

The Cooperative has a revolving line of credit agreement with a limit of \$250,000. The line of credit has a variable interest rate equal to the bank's prime rate plus 1.75%. There was no outstanding balance at December 31, 2022 and 2021.

BRIARPATCH COOPERATIVE OF NEVADA COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 (Audited) and 2021 (Reviewed)

NOTE 6 – NOTES PAYABLE

Notes payable at December 31, 2022 and 2021 consisted of the following:

	<u>2022</u>	<u>2021</u>
Two unsecured notes payable to Tri Counties Bank, both with interest rates of 4.56%. Monthly payments totaled \$17,066 including principal and interest. Both notes were paid in November 2022.	\$ -	\$ 184,047
Note payable to Tri Counties Banks secured by substantially all the assets of the Cooperative. The interest rate, currently 4.5%, is subject to adjustment every five years. Monthly payments of \$70,168, including principal and interest, commence in December 2023. The note matures in November 2033.	4,155,187	-
Note payable to Tri Counties Bank secured by substantially all the assets of the Cooperative. The interest rate, currently 3.75%, is subject to adjustment every five years. Current monthly payments are \$27,039, including principal and interest. The note matures in January 2036.	<u>3,336,968</u>	<u>3,530,560</u>
Notes payable	7,492,155	3,714,607
Less current portion of notes payable	200,885	377,639
Less net loan fees	<u>84,688</u>	<u>22,367</u>
Notes payable less current portion and net loan fees	<u>\$ 7,206,582</u>	<u>\$ 3,314,601</u>

Future minimum payments on notes payable are as follows:

2023	\$ 200,885
2024	545,338
2025	568,890
2026	593,466
2027	610,793
Thereafter	<u>4,972,783</u>
Notes payable	<u>\$ 7,492,155</u>

The notes are subject to certain covenants as outlined in the loan agreements.

BRIARPATCH COOPERATIVE OF NEVADA COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 (Audited) and 2021 (Reviewed)

NOTE 7 – OWNERSHIP CAPITAL

Ownership capital consist of owners' investments in the Cooperative. Ownerships are granted for a price set by the Board, currently \$200 per owner. Ownerships can be paid in full or in installments. Each active or fully paid owner is entitled to only one vote. No owner may transfer his or her ownership or any right arising therefrom, except within the family or household of an owner, upon the death of an owner or upon approval of the Board. If ownership is terminated for any reason, the Cooperative may, upon owner request and Board approval, purchase the owner's shares provided that replacement capital has been secured by the Cooperative from a new owner. The Cooperative contributes ownership capital on behalf of employees during the term of employment. The capital is returned to the Cooperative upon termination of employment.

NOTE 8 – SALES DISCOUNTS

The sales and discount amounts for 2022 and 2021 are summarized as follows:

	2022	2021
Sales - gross	\$ 36,956,652	\$ 37,975,981
Owner discounts	(351,720)	(365,952)
Senior discounts	(293,008)	(283,193)
Sales - net	<u>\$ 36,311,924</u>	<u>\$ 37,326,836</u>

NOTE 9 – LEASES

The Cooperative leases office space on a five-year lease through May 2024. Monthly rent payments under this lease are currently \$8,451. The Cooperative leases parking space on a two-year lease that expired December 2021 that was renewed for a third two-year term ending December 2023. Monthly payments under this lease are currently \$832. The Cooperative leases a dishwashing machine on a five-year lease through December 2024 with monthly payments of \$305. The Cooperative leases warehouse space on a one-year lease through April 2023. Monthly payments under this lease are \$1,330.

On December 15, 2020, the Cooperative entered into a 10-year lease for approximately 23,700 square feet of commercial retail space in Auburn in which the Cooperative plans to open a second store similar to its existing Grass Valley location. Monthly payments of \$29,979 began in November 2022. This lease contains four 5-year extensions at the option of the Cooperative.

The components of total lease cost are as follows:

Finance lease cost	
Amortization of right-of-use assets	\$ 21,748
Interest on lease liabilities	2,584
Operating lease cost	<u>189,679</u>
Total lease cost	<u>\$ 214,011</u>

BRIARPATCH COOPERATIVE OF NEVADA COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 (Audited) and 2021 (Reviewed)

NOTE 9 – LEASES (continued)

Other information related to leases is as follows:

Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from finance leases	2,404
Operating cash flows from operating leases	20,882
Financing cash flows from finance leases	189,278
Right-of-use assets obtained with new finance lease liabilities	68,767
Right-of-use assets obtained with new operating lease liabilities	3,285,601
Weighted-average remaining lease term	
Finance leases	2.23 years
Operating leases	9.41 years
Weighted-average discount rate	
Finance leases	4.50%
Operating leases	4.50%

The maturities of lease liabilities as of December 31, 2022, are as follows:

	Finance Leases	Operating Leases
Year ending December 31:		
2023	\$ 23,286	\$ 504,683
2024	20,898	429,887
2025	6,232	386,788
2026	-	386,788
2027	-	382,282
Thereafter	-	1,738,801
Total minimum lease payments	50,416	3,829,229
Imputed interest	(2,351)	(701,167)
Total lease liabilities	<u>\$ 48,065</u>	<u>\$ 3,128,062</u>

BRIARPATCH COOPERATIVE OF NEVADA COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 (Audited) and 2021 (Reviewed)

NOTE 10 – RETIREMENT PLAN

The Cooperative sponsors a 401(k) profit sharing plan. Employees are eligible to participate after completing one year and 1,000 hours of service. Employees may contribute to the plan up to the allowable maximum amount. The Cooperative is required to make a matching contribution each year. For 2022 and 2021 the match was 100% of employee contributions, up to a maximum of 3% of compensation, for a total of \$102,144 and \$94,494. Employees are immediately fully vested in all plan contributions.

NOTE 11 – INCOME TAXES

The provision for income taxes for 2022 and 2021 consisted of the following:

	2022	2021
Current income taxes		
Federal income tax expense	\$ -	\$ (11,078)
State income tax expense	(1,054)	(43,559)
Deferred income taxes		
Change in basis of assets and liabilities	31,000	(87,000)
Provision for income taxes	<u>\$ 29,946</u>	<u>\$ (141,637)</u>

The income tax provision differs from the expense that would result from applying statutory rates to income before income taxes primarily because of the use of accelerated depreciation methods for income tax purposes and the tax deductibility of patronage dividends.

The Cooperative's total deferred tax asset, valuation allowance, and total deferred tax liability at December 31, 2022 and 2021 were as follows:

	2022	2021
Deferred tax asset	\$ 111,000	\$ 123,000
Valuation allowance	-	-
Deferred tax liability	(399,000)	(442,000)
Net deferred tax liability	<u>\$ (288,000)</u>	<u>\$ (319,000)</u>

The deferred tax assets and liabilities primarily represent the tax benefits of federal and state net operating loss carryforwards, the temporary nondeductibility of certain expenses, and the future tax costs and benefits of differences in depreciation methods for financial statement and tax purposes.

The Cooperative has federal net operating loss carryforwards available at December 31, 2022 of approximately \$121,000 which do not expire. The Cooperative has no state net operating loss carryforwards available at December 31, 2022.

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NOTE 12 – STATEMENTS OF CASH FLOWS SUPPLEMENTAL DISCLOSURES

	2022	2021
Cash paid for interest, net of \$45,814 and \$0 capitalized	\$ 177,724	\$ 151,421
Cash paid for income taxes	54,650	39,590
Noncash financing transactions		
Accrued patronage dividends	-	207,600
Donated employee ownership shares - net	1,200	600

NOTE 13 – PAYCHECK PROTECTION PROGRAM

On June 29, 2020, the Cooperative received a \$800,000 loan under the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act and administered by the U.S. Small Business Administration (SBA). On May 4, 2021, the Cooperative received forgiveness of its loan. \$800,000 was recorded as PPP loan forgiveness income in the 2020 statement of operations.

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 entitled to loan forgiveness in the amount claimed on its application. If SBA determines the Cooperative was ineligible for the loan or for forgiveness in whole or in part, SBA will seek repayment of the outstanding loan balance.

NOTE 14 – CONCENTRATIONS

Credit

The Cooperative maintains cash balances at several financial institutions located in California. Accounts at each institution are insured by the Federal Deposit Insurance Corporation or the National Credit Union Association up to \$250,000. At December 31, 2022 and 2021, the Cooperative's uninsured cash balances totaled approximately \$2,851,000 and \$4,787,000.

Purchasing Agreement

The Cooperative has an agreement through 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 51% 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, 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 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 Cooperative contributes fund to a reserve held on deposit by the JLF to satisfy this obligation. The liability in a default may exceed the deposit with the JLF.

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NOTE 15 – COMMITMENT

The Cooperative has a construction contract in place for renovation work at its new Auburn facility with an outstanding commitment of approximately \$1,021,000 at December 31, 2022.