

**WEAVERS WAY COOPERATIVE ASSOCIATION**

**FINANCIAL STATEMENTS AND  
ADDITIONAL INFORMATION**

*Years Ended June 30, 2007 and 2006*

## TABLE OF CONTENTS

	<u>Page No.</u>
INDEPENDENT AUDITORS' REPORT .....	1
FINANCIAL STATEMENTS	
Balance Sheets .....	2
Statements of Operations.....	3
Statements of Changes in Members' Equity .....	4
Statements of Cash Flows .....	5
Notes to Financial Statements .....	7
ADDITIONAL INFORMATION	
Schedules of Operating Expenses .....	14

## Independent Auditors' Report

To the Board of Directors  
Weavers Way Cooperative Association  
Philadelphia, Pennsylvania

We have audited the accompanying balance sheets of the Weavers Way Cooperative Association as of June 30, 2007 and 2006, and the related statements of operations, changes in members' equity and cash flows for the years then ended. These financial statements are the responsibility of the Cooperative's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Weavers Way Cooperative Association as of June 30, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of operating expenses on page 14 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Maillie, Falconiero + Company*

August 30, 2007

# WEAVERS WAY COOPERATIVE ASSOCIATION

## BALANCE SHEETS

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 395,999	\$ 461,169
Certificate of deposit	382,848	101,837
Accounts receivable	13,477	9,655
Inventory	271,266	278,073
Prepaid expenses	16,691	18,974
	<u>1,080,281</u>	<u>869,708</u>
<b>TOTAL CURRENT ASSETS</b>	<b>1,080,281</b>	<b>869,708</b>
<b>PROPERTY AND EQUIPMENT, net</b>	<b>949,199</b>	<b>902,202</b>
<b>OTHER ASSETS</b>		
Deferred income tax benefit	22,429	17,544
Investments	73,393	78,702
Deferred financing fees, net	336	413
Co-op receivable	9,218	-
Other assets	875	875
	<u>106,251</u>	<u>97,534</u>
	<u>\$ 2,135,731</u>	<u>\$ 1,869,444</u>
<b>LIABILITIES AND MEMBERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current portion of long-term debt	\$ 24,721	\$ 22,656
Accounts payable	221,804	221,832
Accrued expenses	204,767	179,244
Sales tax payable	5,268	5,015
Deferred income	1,895	2,095
Income taxes payable	23,395	7,635
Patronage dividend payable	20,528	25,769
	<u>502,378</u>	<u>464,246</u>
<b>TOTAL CURRENT LIABILITIES</b>	<b>502,378</b>	<b>464,246</b>
<b>LONG-TERM DEBT, net of current portion</b>	<b>319,703</b>	<b>344,423</b>
<b>MEMBERS' EQUITY</b>		
Members' contributions	725,635	589,655
Retained earnings	588,015	471,120
	<u>1,313,650</u>	<u>1,060,775</u>
	<u>\$ 2,135,731</u>	<u>\$ 1,869,444</u>

See accompanying notes.

**WEAVERS WAY COOPERATIVE ASSOCIATION**

## STATEMENTS OF OPERATIONS

*Years Ended June 30, 2007 and 2006*

	<u>2007</u>	<u>2006</u>
REVENUE	\$ 6,898,154	\$ 6,320,241
COST OF GOODS SOLD	<u>4,550,311</u>	<u>4,173,223</u>
GROSS PROFIT	2,347,843	2,147,018
OPERATING EXPENSES	<u>2,232,855</u>	<u>2,024,600</u>
INCOME FROM OPERATIONS	114,988	122,418
OTHER INCOME		
Interest income	33,259	14,097
Rentals	19,324	21,170
Newsletter, net of expenses	10,245	14,279
Patronage dividend	2,908	11,411
Miscellaneous	66,863	55,617
	<u>132,599</u>	<u>116,574</u>
INCOME BEFORE INCOME TAXES	247,587	238,992
INCOME TAXES	<u>30,692</u>	<u>11,200</u>
NET INCOME	<u>\$ 216,895</u>	<u>\$ 227,792</u>

Net income does not include deductions for declared patronage dividends of \$100,000 in 2007 and 2006.

*See accompanying notes.*

**WEAVERS WAY COOPERATIVE ASSOCIATION**

## STATEMENTS OF CHANGES IN MEMBERS' EQUITY

*Years Ended June 30, 2007 and 2006*

	<u>Members'</u> <u>Contributions</u>	<u>Retained</u> <u>Earnings</u>	<u>Totals</u>
BALANCE, JUNE 30, 2005	\$ 447,665	\$ 343,328	\$ 790,993
Members' contributions	81,120	-	81,120
Redemption of members' interests	(14,130)	-	(14,130)
Patronage dividend	75,000	(100,000)	(25,000)
Net income	-	<u>227,792</u>	<u>227,792</u>
BALANCE, JUNE 30, 2006	<u>589,655</u>	<u>471,120</u>	<u>1,060,775</u>
Members' contributions	75,650	-	75,650
Redemption of members' interests	(19,670)	-	(19,670)
Patronage dividend	80,000	(100,000)	(20,000)
Net income	-	<u>216,895</u>	<u>216,895</u>
BALANCE, JUNE 30, 2007	<u><u>\$ 725,635</u></u>	<u><u>\$ 588,015</u></u>	<u><u>\$ 1,313,650</u></u>

*See accompanying notes.*

**WEAVERS WAY COOPERATIVE ASSOCIATION**

## STATEMENTS OF CASH FLOWS

Years Ended June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 216,895	\$ 227,792
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	59,533	58,717
Patronage dividend	(25,241)	(15,231)
(Increase) decrease in		
Accounts receivable	(3,822)	(3,276)
Inventory	6,807	(31,807)
Prepaid expenses	2,283	10,506
Deferred income tax benefit	(4,885)	(1,000)
Co-op receivable	(9,218)	-
Other assets	-	(392)
Increase (decrease) in		
Accounts payable	(28)	2,256
Accrued expenses	25,523	24,593
Sales tax payable	253	1,203
Deferred income	(200)	1,400
Income taxes payable	15,760	7,635
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>283,660</u>	<u>282,396</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(106,453)	(94,113)
Investment in certificate of deposit	(281,011)	(101,837)
(Increase) decrease in investments	5,309	(51,171)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>	<u>(382,155)</u>	<u>(247,121)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayment of borrowings	(22,655)	(51,699)
Redemptions of members' interests	(19,670)	(14,130)
Proceeds from members' interests	75,650	81,120
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>33,325</u>	<u>15,291</u>
<b>NET INCREASE (DECREASE) IN CASH FORWARD</b>	<u>\$ (65,170)</u>	<u>\$ 50,566</u>

**WEAVERS WAY COOPERATIVE ASSOCIATION**

## STATEMENTS OF CASH FLOWS

*Years Ended June 30, 2007 and 2006*

	<u>2007</u>	<u>2006</u>
NET INCREASE (DECREASE) IN CASH FORWARDED	\$ (65,170)	\$ 50,566
CASH AT BEGINNING OF YEAR	<u>461,169</u>	<u>410,603</u>
CASH AT END OF YEAR	<u><u>\$ 395,999</u></u>	<u><u>\$ 461,169</u></u>
SUPPLEMENTAL DISCLOSURES		
Cash paid during the year for interest	\$ 20,877	\$ 23,327
Cash paid during the year for income tax	24,457	452

*See accompanying notes.*

# WEAVERS WAY COOPERATIVE ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

### NOTE A NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Operations

The Weavers Way Cooperative Association (the "Cooperative") is a member-owned retail cooperative in Philadelphia's West Mount Airy section. A community institution since 1973, the Cooperative now has approximately 3,300 member households. In addition to the food store around which the Cooperative was organized, the Cooperative also offers other ancillary services to its members.

#### Basis of Accounting

The financial statements are prepared on the accrual basis of accounting.

#### Accounts Receivable

The Cooperative extends modest unsecured credit to its customers in the ordinary course of business but mitigates the associated credit risk by requiring its customers to be members of the Cooperative. Management considers credit provided to its members fully collectible.

#### Inventory

Inventory consists of retail merchandise and is stated at the lower of cost or market. Cost is determined on the first-in, first-out method.

#### Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided over the estimated useful lives of the property and equipment using the straight-line method.

Depreciation and amortization rates are provided based on the following ranges of useful lives:

	<u>Years</u>
Building and improvements	15-39
Furniture and equipment	5-10

Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized. When property and equipment are sold or otherwise disposed of, the asset and related accumulated depreciation and amortization accounts are relieved, and any gain or loss is included in operations.

# **WEAVERS WAY COOPERATIVE ASSOCIATION**

## **NOTES TO FINANCIAL STATEMENTS**

*June 30, 2007 and 2006*

### **Investments**

Investments, carried at the lower of cost or net realizable value, consist of member contributions to other cooperatives in which the Cooperative participates.

### **Deferred Financing Fees**

The cost associated with obtaining long-term financing has been capitalized and is being amortized over the respective loan period. Amortization charged during the years ended June 30, 2007 and 2006, was \$77 and \$454, respectively.

### **Members' Contributions**

Upon joining the Cooperative, a member is required to make an annual capital contribution (currently \$30) up to an amount set by the membership (currently \$400). These contributions are returned to the member upon their termination.

### **Revenue Recognition**

Revenue is recognized upon the sale of products to members.

### **Advertising Costs**

Costs associated with advertising and promotion are expensed in the year incurred. Advertising expenses for the years ended June 30, 2007 and 2006, were \$6,191 and \$6,525, respectively.

### **Income Taxes**

The Cooperative is organized as a subchapter T corporation pursuant to Internal Revenue Code (IRC) Section 1381. Subchapter T stipulates in IRC Section 1382 that a cooperative association shall take as a deduction from gross income amounts paid to members as "patronage dividends." The deduction is allowed provided payments to members are made within eight and one-half months subsequent to the close of the cooperative association's fiscal year. A patronage dividend in the amount of \$100,000 has been declared for each of the years ended June 30, 2007 and 2006.

Income taxes are provided for the effects of transactions reported in the financial statements and consist of taxes currently due, plus deferred taxes related primarily to temporary differences between the net basis of property and equipment for financial and income tax reporting, net operating loss carryforwards available and accrued vacation and sick time. The deferred tax asset or liability, as applicable, represents the future tax return consequences of those differences, which will either be taxable or deductible when the asset or liability is recovered or settled.

# WEAVERS WAY COOPERATIVE ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

### Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### Concentrations of Credit Risk

Financial instruments that potentially subject the Cooperative to concentrations of credit risk consist primarily of cash, investments and accounts receivable. The Cooperative places its cash with financial institutions and, at times, such balances may exceed federally insured amounts. Investments consist of interests in other cooperatives. Accounts receivable are spread over numerous members. Bad debt expense has historically been within management's expectations and has not been significant.

### Cash and Cash Equivalents

The Cooperative considers all liquid investments with an original maturity of three months or less to be cash equivalents.

The Cooperative maintains deposits with several local banks, which are insured up to the Federal Deposit Insurance Corporation (FDIC) coverage. At June 30, 2007 and 2006, the Cooperative had deposits in excess of FDIC coverage of \$428,045 and \$351,386, respectively.

### Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

## NOTE B      **ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following:

	<u>2007</u>	<u>2006</u>
Member purchases and other	\$ 10,044	\$ 3,920
Advertising	<u>3,433</u>	<u>5,735</u>
	<u>\$ 13,477</u>	<u>\$ 9,655</u>

**WEAVERS WAY COOPERATIVE ASSOCIATION****NOTES TO FINANCIAL STATEMENTS***June 30, 2007 and 2006***NOTE C PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<u>2007</u>	<u>2006</u>
Land	\$ 40,075	\$ 40,075
Buildings and improvements	991,926	977,784
Furniture and equipment	573,925	481,614
	<u>1,605,926</u>	<u>1,499,473</u>
Accumulated depreciation	<u>(656,727)</u>	<u>(597,271)</u>
	<u>\$ 949,199</u>	<u>\$ 902,202</u>

Depreciation charged to operations during the years ended June 30, 2007 and 2006, was \$59,456 and \$58,263, respectively.

**NOTE D INVESTMENTS**

Investments consist of the following:

	<u>2007</u>	<u>2006</u>
<b>INVESTMENTS IN COOPERATIVES</b>		
National Cooperative Bank	\$ 8,527	\$ 8,527
National Cooperative Grocers Association	23,841	25,077
Loans receivable	8,839	15,000
Frontier Herb Cooperative	603	85
Certificate of deposit	<u>31,583</u>	<u>30,013</u>
	<u>\$ 73,393</u>	<u>\$ 78,702</u>

In March 2007, the Cooperative entered into an agreement with River Valley Market, LLC, a Massachusetts limited liability company, who is in the process of arranging New Market Tax Credit tiered financing ("NMTC financing") for the construction and operation of a new food cooperative and related improvements. As part of the agreement, the Cooperative has agreed to assist River Valley Market, LLC in its efforts to obtain such NMTC financing by providing funds of \$25,000 to be held by the National Cooperative Bank as security for a \$400,000 loan to be made by NCB Capital Impact to River Valley Market, LLC. The certificate of deposit balance as of June 30, 2007, was \$31,583.

**WEAVERS WAY COOPERATIVE ASSOCIATION**

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

**NOTE E LONG-TERM DEBT**

Long-term debt consists of the following:

	<u>2007</u>	<u>2006</u>
Note payable, monthly principal and interest installments of \$1,085 through June 2013, interest at 5.5%	\$ 66,426	\$ 74,784
Mortgage payable, monthly principal and interest installments of \$1,252 through March 2010, balloon payment due March 11, 2010, interest at 5.75%, secured by real estate located at 559 Carpenter Lane, Philadelphia, Pennsylvania	134,951	141,891
Mortgage payable, monthly principal and interest installments of \$1,327 through March 2010, balloon payment due March 11, 2010, interest at 5.75%, secured by real estate located at 555 Carpenter Lane, Philadelphia, Pennsylvania	<u>143,047</u>	<u>150,404</u>
	344,424	367,079
Current portion	<u>(24,721)</u>	<u>(22,656)</u>
	<u>\$ 319,703</u>	<u>\$ 344,423</u>

Annual maturities of long-term debt are as follows:

<u>Year Ending</u> <u>June 30,</u>	
2008	\$ 24,721
2009	26,212
2010	257,551
2011	11,329
2012	11,968
Thereafter	<u>12,643</u>
	<u>\$ 344,424</u>

# WEAVERS WAY COOPERATIVE ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

### NOTE F PENSION PLAN

The Cooperative has an employer-sponsored defined contribution savings and deferred compensation plan (the "Plan") covering eligible employees of the Cooperative, qualifying under IRC Section 401(k). The Cooperative, at its discretion, may elect to make matching contributions or contribute an additional amount to each participant's account. Contributions to the Plan by the Cooperative during the years ended June 30, 2007 and 2006, were \$8,198 and \$5,178, respectively.

### NOTE G INCOME TAXES

The provision for income taxes at June 30, 2007, is as follows:

	<u>Federal</u>	<u>State</u>	<u>Totals</u>
Current	\$ 22,229	\$ 13,348	\$ 35,577
Deferred	<u>(120)</u>	<u>(4,765)</u>	<u>(4,885)</u>
	<u>\$ 22,109</u>	<u>\$ 8,583</u>	<u>\$ 30,692</u>

The provision for income taxes at June 30, 2006, is as follows:

	<u>Federal</u>	<u>State</u>	<u>Totals</u>
Current	\$ 5,300	\$ 6,900	\$ 12,200
Deferred	<u>(1,000)</u>	<u>-</u>	<u>(1,000)</u>
	<u>\$ 4,300</u>	<u>\$ 6,900</u>	<u>\$ 11,200</u>

The deferred tax asset is primarily the result of accrued expenses deductible in future years and the excess of tax over book depreciation. For the year ended June 30, 2007, the Cooperative utilized approximately \$936 in federal net operating loss carryforwards to offset current taxable income.

# WEAVERS WAY COOPERATIVE ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

### NOTE H OPERATING LEASE COMMITMENT

The Cooperative leases a truck under a noncancelable operating lease with a term of seven years.

Rent expense under this lease for the years ended June 30, 2007 and 2006, was \$10,556 in each year. The following is a schedule by years of future minimum rentals under the lease at June 30, 2007:

<u>Year Ending June 30,</u>	
2008	\$ 10,556
2009	<u>9,947</u>
	<u>\$ 20,503</u>

The Company leases a warehouse from an unrelated party under a three-year operating lease, which expires in 2010 with an option to extend the lease through 2012. The lease agreement provides for minimum lease payments and additional rent for taxes and insurance which are subject to change.

The following is a schedule of future minimum lease payments required under the lease:

<u>Year Ending June 30,</u>	
2008	\$ 13,450
2009	14,050
2010	<u>8,400</u>
	<u>\$ 35,900</u>

Rent expense was \$12,834 and \$11,700 for the years ended June 30, 2007 and 2006, respectively.

## **ADDITIONAL INFORMATION**

**WEAVERS WAY COOPERATIVE ASSOCIATION****SCHEDULES OF OPERATING EXPENSES***Years Ended June 30, 2007 and 2006*

	<u>2007</u>	<u>2006</u>
OPERATING EXPENSES		
Payroll	\$ 1,347,715	\$ 1,242,721
Payroll taxes	112,393	104,797
Employee benefits	112,279	112,982
Advertising	6,191	6,525
Bank charges	53,238	45,508
Board	18,692	14,740
Casual labor	22,907	25,163
Depreciation and amortization	59,533	58,717
Donations	4,254	4,667
Dues and subscriptions	11,415	8,194
Equipment rental	6,338	7,957
Franchise tax	4,640	6,400
General liability	19,162	21,003
Interest	21,181	22,637
Licenses and fees	4,610	4,764
Membership administration	2,950	4,968
Merchandising supplies	102,964	84,316
Miscellaneous	8,342	8,546
Office	26,162	30,430
Professional fees	63,554	21,393
Real estate taxes	8,983	8,207
Rent	12,834	11,700
Repairs and maintenance	68,153	46,877
Telephone	9,447	9,572
Training, seminars and conferences	23,671	12,027
Trash removal	15,156	17,452
Truck	16,321	17,298
Utilities	44,137	37,742
Workers' compensation	25,633	27,297
	<u>\$ 2,232,855</u>	<u>\$ 2,024,600</u>

# WEAVERS WAY COOPERATIVE ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS

June 30, 2007 and 2006

### NOTE A NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

#### Nature of Operations

The Weavers Way Cooperative Association (the "Cooperative") is a member-owned retail cooperative in Philadelphia's West Mount Airy section. A community institution since 1973, the Cooperative now has approximately 3,000 member households. In addition to the food store around which the Cooperative was organized, the Cooperative also offers other ancillary services to its members.

#### Basis of Accounting

The financial statements are prepared on the accrual basis of accounting.

#### Accounts Receivable

The Cooperative extends modest unsecured credit to its customers in the ordinary course of business but mitigates the associated credit risk by requiring its customers to be members of the Cooperative. Management considers credit provided to its members fully collectible.

#### Inventory

Inventory consists of retail merchandise and is stated at the lower of cost or market. Cost is determined on the first-in, first-out method.

#### Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided over the estimated useful lives of the property and equipment using the straight-line method.

Depreciation and amortization rates are provided based on the following ranges of useful lives:

	<u>Years</u>
Building and improvements	15-39
Furniture and equipment	5-7

Maintenance and repairs are charged to operations when incurred. Betterments and renewals are capitalized. When property and equipment are sold or otherwise disposed of, the asset and related accumulated depreciation and amortization accounts are relieved, and any gain or loss is included in operations.