



KEWEENAW COOPERATIVE  
FINANCIAL STATEMENTS  
December 31, 2021 and 2020

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Keweenaw Cooperative  
Hancock, Michigan

### **Qualified Opinion**

We have audited the accompanying financial statements of Keweenaw Cooperative, which comprise the balance sheet as of December 31, 2021, and the related statements of income, owners' equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, except for the possible effects on the statements of income, owners' equity, and cash flows of the matter described in the Basis for Qualified Opinion section of our report, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Keweenaw Cooperative as of December 31, 2021, 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 Qualified Opinion**

We did not observe the physical inventory (stated at \$243,491 and \$250,728) taken as of December 31, 2021 and 2020, and the Cooperative's records do not permit adequate retroactive tests of inventory quantities. Consequently, we were unable to determine whether any adjustments were necessary in the statements of income, owners' equity, or cash flows.

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 Keweenaw Cooperative 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 qualified audit opinion.

### **Prior Period Financial Statements**

The 2020 financial statements were reviewed by us, and our report thereon, dated August 12, 2021, 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.

### **Responsibility 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 Keweenaw Cooperative'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 standards 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 disclosures 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 Keweenaw Cooperative'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 Keweenaw Cooperative'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 the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Wegner CPAs LLP*

Wegner CPAs, LLP  
Madison, Wisconsin  
June 24, 2022

**KEWEENAW COOPERATIVE**  
**BALANCE SHEETS**  
December 31, 2021 (Audited) and 2020 (Reviewed)

	2021	2020
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	\$ 932,040	\$ 720,049
Accounts receivable	33,283	26,986
Current portion of notes receivable	5,067	117,308
Inventory	243,491	250,728
Prepaid expenses	71,841	17,812
Prepaid income taxes	79	11,361
Total current assets	1,285,801	1,144,244
Property and equipment - net	208,840	232,796
<b>OTHER ASSETS</b>		
Equity and deposits in other cooperatives	79,477	67,084
Notes receivable less current portion	-	5,067
<b>Total assets</b>	<b>\$ 1,574,118</b>	<b>\$ 1,449,191</b>
<b>LIABILITIES AND OWNERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 121,691	\$ 112,088
Accrued expenses	67,424	66,078
Gift cards payable	23,011	20,227
Patronage dividends payable	8,006	12,158
Income taxes payable	1,682	-
Other current liabilities	14,606	16,471
Refundable deposits and memberships	37,533	37,603
Total liabilities	273,953	264,625
<b>OWNERS' EQUITY</b>		
Membership stock	345,196	300,673
Patronage dividends retained	202,202	168,847
Retained earnings	752,767	715,046
Total owners' equity	1,300,165	1,184,566
<b>Total liabilities and owners' equity</b>	<b>\$ 1,574,118</b>	<b>\$ 1,449,191</b>

See accompanying notes.

**KEWEENAW COOPERATIVE**  
**STATEMENTS OF INCOME**  
Years Ended December 31, 2021 (Audited) and 2020 (Reviewed)

	2021		2020	
	Amount	Percent	Amount	Percent
<b>SALES REVENUE</b>				
Sales	\$ 4,850,348	101.18	\$ 4,525,367	101.42
Less discounts	56,450	1.18	63,357	1.42
Sales, net	4,793,898	100.00	4,462,010	100.00
Cost of sales	3,008,131	62.75	2,804,595	62.85
Gross profit	1,785,767	37.25	1,657,415	37.15
<b>OPERATING EXPENSES</b>				
Personnel	1,237,702	25.82	1,194,034	26.76
Operations	234,403	4.89	174,001	3.90
Occupancy	83,356	1.74	65,622	1.47
Administrative	61,971	1.29	34,656	0.78
Promotions	46,217	0.96	46,307	1.04
Depreciation	31,205	0.65	25,945	0.58
Governance	14,370	0.30	13,656	0.31
Total operating expenses	1,709,224	35.65	1,554,221	34.84
Net income from operations	76,543	1.60	103,194	2.31
<b>OTHER INCOME</b>				
Paycheck Protection Program income	-	-	185,000	4.15
Interest income	1,111	0.02	4,622	0.10
Miscellaneous income	17,321	0.36	10,575	0.24
Total other income	18,432	0.38	200,197	4.49
Net income before income taxes	94,975	1.98	303,391	6.80
Provision for income taxes	(15,893)	(0.33)	(14,367)	(0.32)
<b>Net income</b>	<b>\$ 79,082</b>	<b>1.65</b>	<b>\$ 289,024</b>	<b>6.48</b>

See accompanying notes.

**KEWEENAW COOPERATIVE**  
**STATEMENTS OF OWNERS' EQUITY**  
Years Ended December 31, 2021 (Audited) and 2020 (Reviewed)

	Membership Stock	Patronage Dividends Retained	Retained Earnings	Total Owners' Equity
<b>Balance December 31, 2019</b>	\$ 274,985	\$ 120,216	\$ 486,811	\$ 882,012
Stock issued	27,408	-	-	27,408
Stock redeemed	(1,720)	-	-	(1,720)
Patronage dividends	-	60,789	(60,789)	-
Patronage dividends payable	-	(12,158)	-	(12,158)
Net income, as restated	-	-	289,024	289,024
<b>Balance December 31, 2020, as restated</b>	300,673	168,847	715,046	1,184,566
Stock issued	47,103	-	-	47,103
Stock redeemed	(2,580)	-	-	(2,580)
Patronage dividends	-	41,361	(41,361)	-
Patronage dividends payable	-	(8,006)	-	(8,006)
Net income	-	-	79,082	79,082
<b>Balance December 31, 2021</b>	<u>\$ 345,196</u>	<u>\$ 202,202</u>	<u>\$ 752,767</u>	<u>\$ 1,300,165</u>

See accompanying notes.

**KEWEENAW COOPERATIVE**  
**STATEMENTS OF CASH FLOWS**  
Years Ended December 31, 2021 (Audited) and 2020 (Reviewed)

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 79,082	\$ 289,024
Adjustments to reconcile net income to net cash flows from operating activities		
Depreciation	31,205	25,945
(Increase) decrease in assets		
Accounts receivable	(6,297)	(8,175)
Inventory	7,237	458
Prepaid expenses	(54,029)	(2,165)
Prepaid income taxes	11,282	(4,480)
Equity and deposits in other cooperatives	(12,393)	(8,187)
Increase (decrease) in liabilities		
Accounts payable	9,603	29,702
Accrued expenses	1,346	13,897
Gift cards payable	2,784	4,922
Income taxes payable	1,682	-
Other current liabilities	(1,865)	(999)
Refundable deposits and memberships	(70)	(10)
<b>Net cash flows from operating activities</b>	<b>69,567</b>	<b>339,932</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest retained in notes receivable	-	(2,023)
Payments received on notes receivable	117,308	57,338
Purchases of property and equipment	(7,249)	(104,604)
<b>Net cash flows from investing activities</b>	<b>110,059</b>	<b>(49,289)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from issuance of membership stock	47,103	27,408
Payments on redemption of membership stock	(2,580)	(1,720)
Patronage dividends paid	(12,158)	-
<b>Net cash flows from financing activities</b>	<b>32,365</b>	<b>25,688</b>
<b>Net change in cash</b>	<b>211,991</b>	<b>316,331</b>
Cash - beginning of year	720,049	403,718
<b>Cash - end of year</b>	<b>\$ 932,040</b>	<b>\$ 720,049</b>
<b>SUPPLEMENTAL INFORMATION</b>		
Cash paid for income taxes		
Noncash financing activities	\$ 4,000	\$ -
Patronage dividends payable	8,006	12,158

See accompanying notes.



**KEWEENAW COOPERATIVE**  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2021 (Audited) and 2020 (Reviewed)

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Nature of Activities**

Keweenaw Cooperative, Inc. (Cooperative) was started in 1973 and operates a member-owned retail store in Hancock, Michigan. The Cooperative specializes in natural and organic groceries, has a full-service deli, and provides catering services.

**Basis of Financial Statement Presentation**

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

**Receivables**

Accounts receivable and notes receivable are stated at the amounts 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 allowances for doubtful accounts are necessary.

**Inventory**

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

**Property and Equipment**

The cost of property and equipment in excess of \$2,000 is capitalized at cost and depreciated using the straight-line method over the estimated useful lives of the assets.

**Revenue Recognition**

The Cooperative derives its revenues primarily from the sale of grocery products to its customers through its retail store location in Hancock. 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.

**KEWEENAW COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2021 (Audited) and 2020 (Reviewed)

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 collected from customers 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 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 the likelihood of the gift card being redeemed is remote and the Cooperative has no legal obligation to remit the unused balance to relevant jurisdictions as unclaimed property. While gift cards are generally redeemed within 12 months, some are never fully redeemed. The Cooperative recognizes gift card breakage under the proportional method, where recognition of breakage income is based upon the historical run-off rate of unredeemed gift cards. There was no gift card breakage income included in revenue for 2021 and 2020.

The Cooperative's contract liabilities from gift card sales for 2021 and 2020 were as follows:

	2021	2020
Beginning of year	\$ 20,227	\$ 15,305
End of year	23,011	20,227

**Income Taxes**

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due.

The Cooperative is allowed to deduct for income tax purposes the qualified patronage dividend allocations made by the board of directors. A minimum of 20 percent of the qualified dividend allocations must be paid in cash each year within eight and one-half months following the end of the Cooperative's fiscal year. Dividends not paid in cash are retained and included as a component of owners' equity of the Cooperative.

**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 revenue and expenses. Actual results could differ from those estimates.

**KEWEENAW COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2021 (Audited) and 2020 (Reviewed)

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Advertising**

Advertising costs are expensed as incurred. Advertising expenses for 2021 and 2020 were \$23,245 and \$29,735.

**Date of Management’s Review**

Management has evaluated subsequent events through June 24, 2022, the date which the financial statements were available to be issued.

NOTE 2 – PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2021 and 2020 consisted of the following:

	2021	2020
Land	\$ 10,000	\$ 10,000
Building improvements	280,800	280,800
Machinery and equipment	438,441	431,193
Property and equipment	729,241	721,993
Accumulated depreciation	(520,401)	(489,197)
Property and equipment, net	\$ 208,840	\$ 232,796

NOTE 3 – 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	\$ 49,574	\$ 38,578
Frontier Natural Products Co-op	27,878	26,481
Other cooperatives	2,025	2,025
Equity and deposits in other cooperatives	\$ 79,477	\$ 67,084

These investments are required to maintain participation in the purchase of merchandise or services from the cooperatives. The equity and deposits in the other cooperatives are not readily marketable and are recorded at cost since they may be redeemed at face value only at the discretion of the other cooperatives’ boards of directors.

**KEWEENAW COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2021 (Audited) and 2020 (Reviewed)

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**NOTE 4 – NOTES RECEIVABLE**

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

	2021	2020
Unsecured note receivable from Shared Capital Cooperative at 1.75%. Accrued interest added to the balance of the note. Repaid in January 2021.	\$ -	\$ 117,308
Unsecured note receivable from Shared Capital Cooperative at 2%. No payments required until maturity. Matured April 2022. The Cooperative has agreed to extend repayment on the note.	5,067	5,067
Notes receivable	5,067	122,375
Current portion of notes receivable	(5,067)	(117,308)
Notes receivable less current portion	\$ -	\$ 5,067

**NOTE 5 – PAYCHECK PROTECTION PROGRAM AWARD**

In May 2020, the Cooperative applied for a Paycheck Protection Program (PPP) loan as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) implemented by the United States Small Business Administration (SBA) to help cover payroll costs, rent, and utilities during the COVID-19 outbreak. The Cooperative received a 1% interest loan from this program, repayable over 24 months, in the amount of \$185,000. As long as the Cooperative met certain criteria set forth in the CARES Act, the loan would be eligible for full or partial forgiveness. In November 2020, the Cooperative received notification of complete forgiveness. As such, \$185,000 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 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.

**KEWEENAW COOPERATIVE**  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 6 – MEMBERSHIP STOCK**

Prior to March 2022, membership stock represented shares of stock in the Cooperative. Members were required to purchase one share for \$200. Shares could be purchased in one lump sum payment; or in \$50 quarterly payments over one year; or in \$25 quarterly payments over two years; or in \$20 annual payments over ten years. Shares were fully refundable should a member decide to leave the Cooperative, subject to approval by the Board of Directors. 3,000 shares were authorized at \$200 par value. There were 2,176 and 1,748 outstanding shares at December 31, 2021 and 2020.

Additionally, 10,000 shares of \$100 par preferred stock had been authorized. At December 31, 2021 and 2020, no shares of preferred stock had been issued.

In March 2022, the Cooperative reincorporated from an Ohio cooperative to a Michigan consumer cooperative. Subsequently, all membership stock was cancelled, and the par value of all shares of membership stock of the Ohio cooperative were converted on a dollar-for-dollar basis into member capital in the Michigan cooperative and were allocated to the holders thereof in the Cooperative's records. There is no limit to the number of members who can hold member capital in the Michigan cooperative.

Non-voting investment certificates replaced preferred stock under Michigan nonprofit statutes. There is no set par value or number of certificates designated.

All members receive certain discounts at the Cooperative. At the discretion of the Cooperative's Board of Directors, members are eligible to receive patronage dividends on the Cooperative's earnings.

**NOTE 7 – PATRONAGE DIVIDENDS**

The Cooperative annually calculates the share of overall net income resulting from members' patronage of the Cooperative. For the year 2021, net income subject to members' patronage was \$41,361, and the Board of Directors declared a patronage dividend for the entire amount. Of the declared dividend, 20 percent was paid in cash. The cash portion of the patronage dividend was \$8,006 and the retained portion of the patronage dividend was \$33,355. Patronage dividends are reported in the owners' equity section of the financial statements and are deducted from the retained earnings balance.

For the year 2020, net income subject to members' patronage was \$60,789, and the Board of Directors declared a patronage dividend for the entire amount. Of the declared dividend, 20 percent was paid in cash. The cash portion of the patronage dividend was \$12,158 and the retained portion of the patronage dividend was \$48,631.

**KEWEENAW COOPERATIVE**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 8 – INCOME TAXES**

Federal and state income taxes for 2021 and 2020 were as follows:

	2021	2020
Current federal income tax expense	\$ (13,011)	\$ (13,194)
Current Michigan income tax expense	(2,882)	(1,173)
Provision for income taxes	\$ (15,893)	\$ (14,367)

The difference between the provision for income taxes at the statutory federal tax rates and the Cooperative's actual provision for income taxes is primarily due to the treatment of the PPP loan forgiveness. The CARES Act provided that loan forgiveness under a PPP loan is excludible from gross income. Section 276 of the Consolidated Appropriations Act, enacted in December 2020, states that deductions relating to loan forgiveness will be allowed. In addition, there are differences related to patronage dividend deductions, depreciation methods, and nondeductible expenses.

Deferred taxes at December 31, 2021 and 2020 were immaterial and not recorded in the financial statements.

**NOTE 9 – 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 supplier in exchange for additional purchase discounts. UNFI provides approximately 58% of the value of items purchased for resale.

As part of this agreement the Cooperative, along with other natural food cooperatives in the Central Corridor, 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 \$8,194 and \$7,309. 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 total liability for this debt could exceed the amount of the deposit with the JLF.

**NOTE 10 – PRIOR PERIOD ADJUSTMENT**

Certain errors of previously reported account balances were discovered during the current year. Prepaid income taxes and retained earnings were both understated by \$11,361 at December 31, 2020. The provision for income taxes for 2020 was overstated by a similar amount.

**KEWEENAW COOPERATIVE**  
NOTES TO FINANCIAL STATEMENTS  
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NOTE 11 – SUBSEQUENT EVENT

In April 2022 the Cooperative purchased a new facility where it plans to move its retail operations. The Cooperative expended \$545,000 with acquisition of the property. No new liabilities were incurred in conjunction with this purchase. At June 24, 2022 the Cooperative had contractual agreements in place in the amount of \$169,000 for renovations of the new facility.

The Cooperative has embarked on a capital campaign to issue investment certificates to its members to assist with the financing of its relocation.