

Pre-AGM Package
Section 5 – Financial Statements

Karma Co-op
Annual General Meeting
October 25th 2004
Palmerston Library, 6-9 pm

KARMA CO-OPERATIVE INC.

(Incorporated Under the Co-Operative Corporations Act of Ontario)

FINANCIAL STATEMENTS

YEAR ENDED MAY 31, 2004

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AUDITORS' REPORT

We have audited the statement of financial position of Karma Co-Operative Inc. as at May 31, 2004 and the statement of changes in net assets, operations, schedule of membership revenues and expenses and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance 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.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the organization as at May 31, 2004 and the results of its operations and the cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Respectfully submitted,

Toronto, Ontario.
August 27, 2004.

CHARTERED ACCOUNTANTS.

KARMACO-OPERATIVE INC.**(Incorporated Under the Co-Operative Corporations Act of Ontario)****STATEMENT OF FINANCIAL POSITION****MAY 31, 2004**

	2004	2003
ASSETS		
Current		
Cash	\$ 65,372	\$ 86,824
Inventory	98,039	98,858
Prepaid expenses and sundry assets	<u>7,592</u>	<u>7,940</u>
	171,003	193,622
Capital - at cost less accumulated amortization (note 2)	66,868	68,257
Other - at cost		
Membership loan		
The Ontario Federation of Food Co-operatives and Clubs Inc.	25,000	25,000
Shares in Metro Credit Union	<u>199</u>	<u>195</u>
	\$ <u>263,070</u>	\$ <u>287,074</u>
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ <u>64,903</u>	\$ <u>69,690</u>
NET ASSETS		
Net assets invested in capital	66,868	68,257
Members' loans	120,700	120,352
Unrestricted net assets	<u>10,599</u>	<u>28,775</u>
	<u>198,167</u>	<u>217,384</u>
	\$ <u>263,070</u>	\$ <u>287,074</u>

Approved on behalf of the Board:

Director_____
Director**STATEMENT OF CHANGES IN NET ASSETS**

The accompanying notes form an integral

KARMACO-OPERATIVE INC.**(Incorporated Under the Co-Operative Corporations Act of Ontario)****YEAR ENDED MAY 31, 2004**

	Invested in capital assets	Members' loans (note 3)	Unrestricted	2004 Total	2003 Total
BALANCE					
- Beginning of year	\$ 68,257	\$120,352	\$ 28,775	\$217,384	\$ 238,061
- Deficiency of revenues over expenses	(10,952)		(16,036)	(26,988)	(32,687)
- Net membership revenues			96	96	2,650
- Invested in capital assets	9,563		(9,563)		
- Members' loans received - net		7,675		7,675	9,360
- Forfeited members' loans (note 3)	_____	<u>(7,327)</u>	<u>7,327</u>	_____	_____
BALANCE					
- End of year	\$ <u>66,868</u>	\$ <u>120,700</u>	\$ <u>10,599</u>	\$ <u>198,167</u>	\$ <u>217,384</u>

The accompanying notes form an integral

STATEMENT OF OPERATIONS

YEAR ENDED MAY 31, 2004

	2004	2003
SALES	\$ <u>1,569,111</u>	\$ <u>1,543,186</u>
COST OF SALES		
Inventory - Beginning of year	98,858	87,861
Purchases	<u>1,273,539</u>	<u>1,253,939</u>
	<u>1,372,397</u>	<u>1,341,800</u>
Inventory - End of year	<u>98,039</u>	<u>98,858</u>
	<u>1,274,358</u>	<u>1,242,942</u>
GROSS PROFIT	<u>294,753</u>	<u>300,244</u>
EXPENSES		
Store wages and payroll costs	265,062	282,122
Office and general	13,292	15,308
Utilities	11,699	10,545
Repairs and maintenance	8,332	5,145
Bank charges and interest	4,934	3,795
Realty taxes	4,789	4,561
Telephone	3,368	2,549
Insurance	2,498	2,188
Audit fees	1,300	1,300
Building loans interest	-	466
Amortization	<u>10,952</u>	<u>9,038</u>
	<u>326,226</u>	<u>337,017</u>
OPERATING LOSS	<u>(31,473)</u>	<u>(36,773)</u>
Add - sundry revenue	4,112	3,758
- interest earned	<u>373</u>	<u>328</u>
	<u>4,485</u>	<u>4,086</u>
DEFICIENCY OF REVENUES OVER EXPENSES	\$ <u>(26,988)</u>	\$ <u>(32,687)</u>

SCHEDULE OF MEMBERSHIP REVENUES AND EXPENSES

YEAR ENDED MAY 31, 2004

	2004	2003
REVENUE	\$ <u>17,845</u>	\$ <u>15,918</u>
EXPENSES		
Administration	9,910	6,909
Committee expenses	2,978	1,985
Newsletter	1,796	2,001
Audit fees	1,300	1,300
Members' meetings	1,140	552
Insurance	<u>625</u>	<u>521</u>
	<u>17,749</u>	<u>13,268</u>
NET MEMBERSHIP REVENUE	\$ <u>96</u>	\$ <u>2,650</u>

STATEMENT OF CASH FLOWS

YEAR ENDED MAY 31, 2004

	2004	2003
Cash and cash equivalents provided by (used in):		
Operating activities:		
Deficiency of revenues over expenses	\$ (26,988)	\$ (32,687)
Net membership revenue	<u>96</u>	<u>2,650</u>
	<u>(26,892)</u>	<u>(30,037)</u>
Adjustments for:		
Amortization	<u>10,952</u>	<u>9,038</u>
Changes in non-cash working capital:		
(Increase) decrease in inventory	818	(10,997)
(Increase) decrease in prepaid expenses and sundry assets	349	(1,765)
Increase (decrease) in accounts payable and accrued liabilities	<u>(4,787)</u>	<u>4,144</u>
	<u>(3,620)</u>	<u>(8,618)</u>
Cash flow from operating activities:	<u>(19,560)</u>	<u>(29,617)</u>
Cash flow from investing activities:		
Increase in capital assets	(9,563)	(11,200)
Increase in shares in Metro Credit Union	<u>(4)</u>	<u>(2)</u>
	<u>(9,567)</u>	<u>(11,202)</u>
Cash flow from financing activities:		
Members' loans received - net	7,675	9,360
Repayment of building loans	<u>-</u>	<u>(19,499)</u>
	<u>7,675</u>	<u>(10,139)</u>
Net decrease in cash and cash equivalents	(21,452)	(50,958)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>86,824</u>	<u>137,782</u>
CASH AND CASH EQUIVALENTS - End of year	\$ <u>65,372</u>	\$ <u>86,824</u>

NOTES TO FINANCIAL STATEMENTS

MAY 31, 2004

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Inventory is valued at the lower of cost, on the first-in, first-out basis and net realizable value.

(b) Amortization was provided at the following annual rates consistent with those of the preceding period:

Building improvements	-	5%	of cost
Building	-	2 1/2%	of cost
Equipment	-	20%	of cost
Computer software	-	33 1/3%	of cost

(c) The organization uses the deferral method of accounting with respect to contributions.

(d) The organization does not account for contributed materials and services.

2. CAPITAL ASSETS

	Cost	Accumulated Amortization	2004 Net	2003 Net
Land	\$6,412	\$-	\$6,412	\$ 6,412
Building improvements	102,007	69,031	32,976	38,078
Building	40,000	27,000	13,000	14,000
Equipment	51,733	37,253	14,480	9,178
Computer software	<u>1,767</u>	<u>1,767</u>	<u>-</u>	<u>589</u>
	\$ <u>201,919</u>	\$ <u>135,051</u>	\$ <u>66,868</u>	\$ <u>68,257</u>

3. MEMBERSHIP LOANS

The Co-operative has recorded all membership loans received from its inception (1972) to date in its accounts. The loans payable to active members amount to \$120,700 (2003 - \$120,352). While reasonable effort has been made to repay membership loans to terminated members, the Co-operative members, in accordance with the Co-operative's by-laws, have adopted the policy of forfeiting all outstanding loans from members who have been inactive for eight years or more. The Board of Directors determined that of the total of membership loans, \$7,327 will not be repaid and is treated as forfeited to the Co-operative and is included as unrestricted net assets.

4. The amount of business transacted during the year with non-members was less than 5%.

KARMA CO-OPERATIVE INC.
(Incorporated Under the Co-Operative Corporations Act of Ontario)

ANALYSIS OF OPERATIONS
YEAR ENDED MAY 31, 2004
UNAUDITED

	2004	%	2003	%
SALES				
Retail, to members	\$ 1,500,379		\$ 1,459,742	
Wholesale, to staff	32,019		44,501	
Non-work surcharge	<u>36,713</u>		<u>38,943</u>	
TOTAL SALES REVENUE	<u>1,569,111</u>	100.00	<u>1,543,186</u>	100.00
PURCHASES				
Cost of sales, gross	1,279,904		1,252,114	
Suppliers' discounts	<u>(5,546)</u>		<u>(9,172)</u>	
	<u>1,274,358</u>	<u>81.22</u>	<u>1,242,942</u>	<u>80.55</u>
GROSS PROFIT	<u>294,753</u>	<u>18.78</u>	<u>300,244</u>	<u>19.45</u>
OPERATING EXPENSES				
Wages and payroll costs	265,062	16.89	282,122	18.29
Other expenses	<u>61,164</u>	<u>3.90</u>	<u>54,895</u>	<u>3.56</u>
	<u>326,226</u>	<u>20.79</u>	<u>337,017</u>	<u>21.85</u>
OPERATING LOSS	\$ <u>(31,473)</u>	<u>(2.01)</u>	\$ <u>(36,773)</u>	<u>(2.40)</u>
SHRINKAGE ANALYSIS				
2004			2003	
(a) Average retail mark-up	<u>31.05</u> %		<u>29.60</u> %	
(b) Gross cost of retail sales (Gross cost of sales minus staff sales)	\$ 1,247,885		\$ 1,207,613	
(c) Gross profit on retail sales (Exclusive of non-work surcharge)	252,494		252,129	
(d) Actual retail gross margin	<u>20.23</u> %		<u>20.88</u> %	
(e) Shrinkage [(a-d)/(1+a)]	8.26 %		6.73%	
(f) \$ value of shrinkage (e*b)	\$ <u>103,075</u>		\$ <u>81,272</u>	