

**BLUENOSE GOPHER BREWERY**  
**(A Minnesota Cooperative Association)**

**REVIEWED FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2015**

## **Bluenose Gopher Brewery**

### **CONTENTS**

	Page
<b>Independent Accountant's Review Report</b>	1
<b>Financial Statements</b>	
Balance Sheet	2
Statement of Operations	3
Statement of Changes in Stockholders' Equity	4
Statement of Cash Flows	5
Notes to Financial Statements	6-10
<b>Schedules of Supplementary Information</b>	11
Schedule of General and Administrative Expenses	12
Schedule of Start-up Expense	12

**INDEPENDENT ACCOUNTANT'S REVIEW REPORT**

Board of Directors  
Bluenose Gopher Brewery  
Granite Falls, Minnesota

We have reviewed the accompanying financial statements of Bluenose Gopher Brewery (a Minnesota cooperative association), which comprise the balance sheet as of December 31, 2015, and the related statements of operations, changes in owners' equity and cash flows for the year then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of company management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

**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.

**Accountant's Responsibility**

Our responsibility is to conduct the review engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

**Accountant's Conclusion**

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

**Supplementary Information**

The supplementary information included in the Schedules of General and Administrative Expenses and Start-up Expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information is the representation of management. We have reviewed the information and, based on our review, we are not aware of any material modifications that should be made to the information in order for it to be in accordance with accounting principles generally accepted in the United States of America. We have not audited the information and, accordingly, do not express an opinion on such information.

*SB Budenske CPA LTD.*

Certified Public Accountants  
Edina, Minnesota

April 26, 2016

**Bluenose Gopher Brewery**

**BALANCE SHEET**  
**December 31, 2015**

**ASSETS**

	<u>2015</u>
<b>CURRENT ASSETS</b>	
Cash and cash equivalents	\$ <u>1,807</u>
Total current assets	<u>1,807</u>
 <b>PROPERTY AND EQUIPMENT</b>	
Building	11,026
Land	<u>5,000</u>
	16,026
Less accumulated depreciation	<u>735</u>
Property and equipment, net	<u>15,291</u>
 <b>OTHER ASSETS</b>	
Capitalized leasehold costs	<u>9,192</u>
Total other assets	<u>9,192</u>
 <b>TOTAL ASSETS</b>	 <u><u>\$ 26,290</u></u>

See Independent Accountant's Review Report and Notes to Financial Statements.

**Bluenose Gopher Brewery**

**BALANCE SHEET**  
**December 31, 2015**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	<u>2015</u>
<b>CURRENT LIABILITIES</b>	
Accounts payable-trade	\$ -0-
Accrued liabilities	
Interest payable	61
Real estate taxes payable	1,332
Current maturities of contract for deed	<u>2,939</u>
Total current liabilities	4,332
 <b>LONG-TERM DEBT-Contract for Deed, net of current maturities</b>	 9,351
 <b>STOCKHOLDERS' EQUITY</b>	
Stock subscriptions receivable	(195)
Patron Stock, (Voting, \$1 Par Value, unlimited shares authorized, 25,185 outstanding)	25,185
Non-Patron Stock, Series 1(voting, \$1 Par Value, 150 shares authorized, -0- outstanding )	-0-
Donated capital	200
Retained earnings (deficit)	<u>(12,583)</u>
Total members' equity	<u>12,607</u>
 <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	 <u>\$26,290</u>

**Bluenose Gopher Brewery**

**STATEMENT OF OPERATIONS**  
**Year Ended December 31, 2015**

	<u>2015</u>
<b>SALES</b>	\$ -0-
<b>COST OF SALES</b>	<u>-0-</u>
<b>GROSS PROFIT</b>	-0-
<b>EXPENSES</b>	
General and administrative expense	6,390
Start-up expense	<u>2,593</u>
<b>OPERATING INCOME</b>	8,983
<b>OTHER (INCOME) EXPENSE</b>	
Other income	(80)
Interest expense	<u>818</u>
	<u>738</u>
<b>LOSS BEFORE PROVISION FOR INCOME TAXES</b>	9,721
<b>PROVISION FOR INCOME TAXES</b>	<u>-0-</u>
<b>NET LOSS</b>	<u>\$ 9,721</u>

# **Bluenose Gopher Brewery**

## **STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY** **Year Ended December 31, 2015**

	<u>Stock Subscriptions</u>	<u>Patron Stock</u>	<u>Non-patron Stock</u>	<u>Donated Capital</u>	<u>Retained (Loss)</u>	<u>Total Stockholders' Equity</u>
Balance December 31, 2014	\$-0-	\$15,772	\$ -0-	\$ 200	\$(2,862)	\$13,110
Increase in subscriptions	(195)	195	-0-	-0-	-0-	-0-
Shares issued for cash	-0-	9,218	-0-	-0-	-0-	9,218
Net loss	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(9,721)</u>	<u>(9,721)</u>
Balance December 31, 2015	<u>\$(195)</u>	<u>\$25,185</u>	<u>\$ -0-</u>	<u>\$200</u>	<u>\$(12,583)</u>	<u>\$12,607</u>

**Bluenose Gopher Brewery**

**STATEMENT OF CASH FLOWS**  
**Year Ended December 31, 2015**

	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Net loss	\$ (9,721)
Adjustments to reconcile net loss to net cash flows from operating activities	
Depreciation	551
Increase (decrease) in liabilities	
Accrued liabilities	<u>50</u>
Net cash used in operating activities	(9,120)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Expenditures for capitalized leasehold costs	<u>(9,050)</u>
Net cash used in investing activities	(9,050)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from sale of stock	9,218
Principal payments on long-term debt	<u>(2,768)</u>
Net cash provided by financing activities	<u>6,450</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	(11,720)
Beginning of year	<u>13,527</u>
End of year	<u>\$ 1,807</u>



## **Bluenose Gopher Brewery**

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Nature of Business**

Bluenose Gopher Brewery (the Cooperative) was organized in 2013 under the laws of the State of Minnesota as a cooperative association. The Cooperative has not commenced its planned principal operations. The Cooperative was organized to manufacture and brew beer for sale to patrons and non-patrons.

##### **Use of Estimates**

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

##### **Revenue Recognition**

Revenue is recognized at the time the customer takes possession of the product and is reported net of sales tax and member discounts.

##### **Cash Equivalents**

Cash equivalents consist of short-term, highly liquid, interest bearing investments that have original maturities of three months or less.

##### **Inventories**

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method. The Cooperative did not possess inventory at December 31, 2015.

##### **Property, Equipment and Depreciation**

Building and land is carried at cost. Maintenance and repairs are charged to operations and additions or improvements are capitalized. If items of property are sold, retired, or otherwise disposed of, they are removed from the asset and accumulated depreciation accounts and any gains or losses thereon are reflected in operations.

Depreciation on the building is computed using straight-line method over the estimated useful life of twenty years for financial statement purposes. An accelerated method is used for income tax purposes.

Capitalized leasehold costs consist of professional fees related to future leasehold improvements. The costs are not currently being amortized as the leasehold improvement project has not commenced.

## **Bluenose Gopher Brewery**

### **NOTES TO FINANCIAL STATEMENTS**

#### **NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)** **Stockholders' Equity**

Membership in the Cooperative is open to all natural persons at least twenty-one years of age. Membership is non-transferable.

Patron stockholders are deemed to be members of the association, and each Patron stockholder is entitled to one vote regardless of the numbers of shares of patron or other classes of stock owned. In any year where the Board of Directors authorizes distributions, 75% of the distributions shall be to patron members.

Non-patron stock may be issued to those that have made application to the Board of Directors to purchase non-patron membership interests, have been authorized by the Board of Directors to purchase the non-patronage interest through a majority vote of the Board of Directors, and who have signed and completed the requirements stipulated in the contribution agreement. Each non-patron stockholder is entitled to one vote regardless of the numbers of shares of patron or non-patron shares owned. In a year where the Board of Directors authorizes distributions, 25% of the distributions shall be distributed to non-patron members.

The Cooperative is not obligated to provide any patronage distributions in any particular year.

#### **Income Taxes**

The Cooperative is not exempt from federal or state income taxes and, therefore, is subject to such taxes with respect to all income not paid or allocated to patrons. The cooperative association is taxed as a corporation.

#### **Advertising**

During the start-up phase, the Cooperative is expensing advertising costs as start-up costs as incurred. Advertising expenses were \$250 for the year ending December 31, 2015.

#### **Start-Up Costs**

The Cooperative has elected to expense start-up costs as incurred. Start-up costs consist primarily of advertising, promotional items, website and fees.

#### **Subsequent Events**

The Cooperative has evaluated subsequent events through April 26, 2016, the date the financial statements were available to be issued.

## Bluenose Gopher Brewery

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 2- RISKS AND UNCERTAINTIES

The Cooperative has not commenced its planned principal operations. The Cooperative was organized to manufacture and brew beer for sale to patrons and non-patrons. The Cooperative is currently seeking additional funding in order to proceed with the build-out of the brewery and to begin operations. The Cooperative has purchased a building in Granite Falls, Minnesota as the site for a future brewery.

The Cooperative's activities are subject to significant risks and uncertainties, including failing to secure additional funding to operationalize and build-out the brewery.

#### NOTE 3- LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2015</u>
Contract for Deed payable L-B LLP, assigned to the Cooperative September, 2014. Monthly payments of \$300 including interest at 6%. The contract matures October, 2019. The contract is secured by the land and building in Granite Falls, Minnesota.	\$ <u>12,290</u>
	12,290
Less current maturities	<u>2,939</u>
Long-term debt	\$ <u>9,351</u>

Aggregate minimum principal payments required on the debt for the years ending December 31 is as follows:

2016	\$ 2,939
2017	3,121
2018	3,313
2019	2,917
2020	-0-



## Bluenose Gopher Brewery

### NOTES TO FINANCIAL STATEMENTS

#### NOTE 4- PROVISION FOR INCOME TAXES

The Cooperative is a non-exempt cooperative and is taxed on non-patronage income and any patronage based income not paid or allocated to patrons. The provision for income taxes for the fiscal years ended December 31, 2015 consists of the following:

	<u>2015</u>
Current	
Federal	\$-0-
State	<u>-0-</u>
Total current income tax expense	-0-
Deferred income tax	<u>-0-</u>
Total provision for income taxes	<u>\$-0-</u>

The following reconciles income taxes reported in the financial statements to taxes that would be obtained by applying regular tax rates to income before taxes:

Expected income tax (benefit)	\$ (2,380)
State minimum fees	-0-
Timing differences	<u>2,380</u>
Total provision for income taxes	<u>\$ -0-</u>

No liabilities related to uncertain tax positions were required to be recorded as of December 31, 2015. The Cooperative does not anticipate significant changes in uncertain tax positions and related liabilities within the next twelve months. Interest and penalties, if any, pertaining to income tax related issued are recorded as interest expense. No accrued interest or penalties were recognized on the balance sheets or statements of income as of and for the year ended December 31, 2015. The Cooperative is subject to U.S. Federal and Minnesota state income tax examinations for years ended December 31, 2013 and forward.

The Cooperative has the following carryovers available to offset future federal taxable income:

Net operating loss carryover expiring December 31, 2035   \$9,353

**Bluenose Gopher Brewery**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 5- PATRONAGE DISTRIBUTION**

The Cooperative is not obligated to provide any patronage distribution in any year. For the year ended December 31, 2015, the Board of Directors' did not declare a patronage distribution.

**NOTE 6- SUPPLEMENTAL DISCLOSURES TO THE STATEMENT OF CASH FLOWS**

	<u>2015</u>
Income taxes paid	\$ <u>-0-</u>
Interest paid	\$ <u>832</u>

## **SCHEDULES OF SUPPLEMENTARY INFORMATION**

**Bluenose Gopher Brewery**

**SCHEDULE OF GENERAL AND ADMINISTRATIVE EXPENSES**  
**Year Ended December 31, 2015**

	<u>2015</u>
Bank charges	\$ 1
Business insurance	2,029
Depreciation	551
Office expense	331
Property taxes	1,378
Utilities	<u>2,100</u>
Total	<u>\$6,390</u>

**SCHEDULE OF START-UP EXPENSES**  
**Year Ended December 31, 2015**

	<u>2015</u>
Advertising	\$ 250
Business promotion	1,563
Printing and stationary	146
Professional fees	225
Postage expense	97
Website expense	<u>312</u>
Total	<u>\$2,593</u>