

IWIG FAMILY DAIRY, LLC
Financial Statements with Supplemental Information

YEAR ENDED DECEMBER 31, 2009

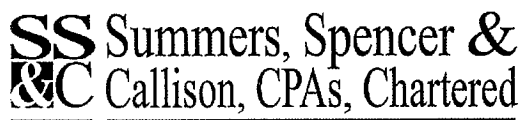
SS Summers, Spencer &
&C Callison, CPAs, Chartered

CERTIFIED PUBLIC ACCOUNTANTS

Iwig Family Dairy, LLC
Financial Statements
Year Ended December 31, 2009

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Accountants' Compilation Report

To Tim Iwig, President
Iwig Family Dairy, LLC
Tecumseh, Kansas

We have compiled the accompanying balance sheet of Iwig Family Dairy, LLC (a limited liability company) as of December 31, 2009, and the related statements of operations and members' deficit and cash flows for the year then ended and the accompanying supplementary information contained in pages 11-12, which are presented only for supplementary analysis purposes, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements and supplementary schedules information that is the representation of management. We have not audited or reviewed the accompanying financial statements and supplementary schedules and, accordingly, do not express an opinion or any other form of assurance on them.

As discussed in Note 2, certain conditions indicate that the Company may be unable to continue as a going concern. The accompanying financial statements do not include any adjustments to the financial statements that might be necessary should the Company be unable to continue as a going concern.

Summers, Spencer & Callison, CPAs, Chartered

Summers, Spencer, & Callison, CPAs, Chartered
April 28, 2010

Iwig Family Dairy, LLC

FINANCIAL STATEMENTS

Iwig Family Dairy, LLC

Balance Sheet

DECEMBER 31, 2009

ASSETS	
Current assets	
Accounts receivable	\$ 31,891
Inventory	17,500
Total current assets	<u>49,391</u>
Livestock and equipment, net	<u>413,236</u>
TOTAL ASSETS	<u><u>\$ 462,627</u></u>
LIABILITIES & MEMBERS' DEFICIT	
Current liabilities	
Bank overdraft	\$ 16,682
Accounts payable	80,167
Credit cards payable	17,360
Line of credit	40,000
Accrued interest	33,245
Withholding and taxes payable	9,728
Total current liabilities	<u>197,182</u>
Long-term liabilities	
Notes payable	<u>711,582</u>
Total liabilities	<u>908,764</u>
Members' Deficit	
Members' Deficit	<u>(446,137)</u>
Total Members' Deficit	<u>(446,137)</u>
TOTAL LIABILITIES & MEMBERS' DEFICIT	<u><u>\$ 462,627</u></u>

Iwig Family Dairy, LLC
Statement of Operations and Members' Deficit
YEAR ENDED DECEMBER 31, 2009

Sales		
Dairy sales	\$ 680,568	94%
Farm sales	11,371	2%
Other sales	31,329	4%
<i>Total sales</i>	<u>723,268</u>	<u>100%</u>
Cost of goods sold		
Cost of goods sold	125,933	17%
Payroll costs and contract labor	207,143	29%
Supplies	104,488	14%
Delivery and vehicle	53,161	7%
Depreciation	93,437	13%
<i>Total cost of goods sold</i>	<u>584,161</u>	<u>81%</u>
Gross profit	139,107	19%
Operating expenses		
General and administrative	89,740	12%
Selling and marketing	22,401	3%
Facility expenses	90,389	12%
Payroll expenses	32,107	4%
<i>Total operating expenses</i>	<u>234,637</u>	<u>32%</u>
Operating loss	(95,531)	-13%
Other income (expense)		
Interest expense	<u>(34,719)</u>	<u>-5%</u>
Net loss	(130,250)	-18%
Members' deficit, beginning of year	(295,635)	
Distributions to members	<u>(20,252)</u>	
Members' deficit, end of year	<u>\$ (446,137)</u>	

Iwig Family Dairy, LLC

Statement of Cash Flows

YEAR ENDED DECEMBER 31, 2009

Cash flows from operating activities

Net loss \$ (130,250)

**Adjustments to reconcile net income to net cash
and cash equivalents provided by operating activities:**

Depreciation 93,437

(Increase) decrease in operating assets

Accounts receivable 13,925

Inventory (17,500)

Increase (decrease) in operating liabilities

Accounts payable and bank overdraft 38,591

Credit cards payable 17,360

Accrued interest 33,245

Withholding and taxes payable (2,684)

Net cash provided by operating activities 46,124

Cash flows from investing activities

Purchase of property and equipment (64,200)

Net cash used in investing activities (64,200)

Cash flows from financing activities

Distributions to member (20,252)

Net proceeds from lines of credit 2,000

Proceeds from notes due to related parties 41,000

Principal payments on long term debt (4,673)

Net cash provided by financing activities 18,076

Net change in cash and cash equivalents

-

Cash and cash equivalents, beginning of year

-

Cash and cash equivalents, end of year

\$ -

Iwig Family Dairy, LLC

Notes to Financial Statements

DECEMBER 31, 2009

1. Summary of significant accounting policies

Business activities

Iwig Family Dairy, LLC (the Company) was organized under the laws of the state of Kansas on October 27, 2004. The Company is a Kansas limited liability company formed on October 27, 2004. The Company is currently wholly owned by Tim and Laurel Iwig. Tim Iwig owns 51% and Laurel Iwig owns 49% of the Company.

The Company operates a micro creamery that produces, processes, packages and markets dairy products from its 95-cow dairy farm between Topeka and Lawrence, Kansas. The products produced and marketed include milk, butter, cream, ice cream, limited quantities of ground beef and specialty food items. At present the Company primarily sells its milk through delivery of milk in half-gallon glass bottle containers to eight grocery stores in Lawrence, Kansas, nine grocery stores in Topeka, Kansas, as well as a few other grocery stores in northeast Kansas, including Manhattan, Leavenworth, Overland Park and Bonner Springs, Kansas. Additionally, the Company directly sells its products at a store located at the Iwig dairy farm in Tecumseh, Kansas. At this store the Company also sells milk in pints, quarts and gallon bottle containers.

Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting.

Cash and equivalents

The Company considers all cash accounts which are not subject to withdrawal restrictions or penalties and certificates of deposit with original maturities of 90 days or less to be cash or cash equivalents.

Accounts receivable

Management closely monitors outstanding accounts receivable and charges off to expense all balances that are determined to be uncollectible. If the reserve method of accounting for uncollectible accounts were used, management believes it would not have a material effect on the financial statements. Recoveries of accounts receivable previously written off are recorded when received. At December 31, 2009, the Company considered all remaining accounts receivable to be fully collectible. Accordingly, there was no allowance for doubtful accounts.

Inventories

Inventories are valued at the lower of cost or market. All inventories are valued using the average cost method.

Property and equipment

Depreciable assets are stated at cost less accumulated depreciation. Depreciation is computed using the straight line method. The estimated useful lives of the depreciable assets range from 3-40 years. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from accounts, and any resulting gain or loss is recognized in income for the period. The cost of maintenance and repairs is charged to income as incurred; significant renewals and betterments are capitalized.

Iwig Family Dairy, LLC

Notes to Financial Statements

DECEMBER 31, 2009

1. Summary of significant accounting policies, continued

Revenue recognition

Sales are recorded at the time products are shipped to customers and when the risk of ownership transfers. Net sales reflects units at selling prices reduced by returns and discounts.

Advertising and promotions

Advertising and promotion costs are expensed in the year incurred.

Income taxes

The Company, with consent of its members, has elected under the Internal Revenue Code to be taxed as a partnership. In lieu of corporate income taxes, the members of the LLC are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for income taxes has been included in the financial statements.

2. Going concern uncertainties

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America, which contemplates continuation of the Company as a going concern, which is dependent upon the Company's ability to establish itself as a profitable business. Recently, the Company's operations have not been profitable and have resulted in net losses and the inability to make principal and interest payments on notes payable. The ability to continue operating and become profitable depends upon increasing revenues and reducing expenses, based on implementing a new business plan and obtaining additional financing. There is no assurance that the plan will be successful or that the Company can achieve profitability based on the inherent risks, uncertainties and economic forces affecting the operation of a dairy.

3. Inventory

Inventory consists of the following as of December 31, 2009:

Grass and hay	\$ 6,500
Milk	<u>11,000</u>
Total inventory	<u>\$ 17,500</u>

Iwig Family Dairy, LLC

Notes to Financial Statements

YEAR ENDED DECEMBER 31, 2009

4. Livestock and equipment, net

Livestock and equipment consist of the following as of December 31, 2009:

Farm machinery and building	\$	399,738
Livestock		309,514
Pumping plant		9,725
Feed and crops		<u>3,320</u>
Subtotal		722,297
Less accumulated depreciation		<u>(309,061)</u>
Property and equipment, net	\$	<u><u>413,236</u></u>

Depreciation expense for the year ended December 31, 2009 was \$93,437.

5. Notes payable

Notes payable were comprised of the following as of December 31, 2009:

Notes payable to Kaw Valley Bank requiring monthly payments of interest only, at interest rate of 2.25%, 7 year term, secured by equipment and livestock and USDA FSA guarantee \$ 256,297

Notes payable to Kaw Valley Bank requiring monthly payments of interest only, at interest rate of 6.25%, 30 year term, secured by real estate, USDA FSA guarantee 337,624

Notes payable to Kaw Valley Bank requiring monthly payments of interest only, at interest rate of 6.25%, 1 year term, secured by livestock and equipment 49,611

Notes payable to related parties with currently no required payments at an interest rate of 0%. 68,050

Total notes payable 711,582

Current portion of long term debt -

Notes payable, net of current \$ 711,582

Iwig Family Dairy, LLC

Notes to Financial Statements

YEAR ENDED DECEMBER 31, 2009

5. Notes payable, continued

The Company has financed the construction of its processing and bottling plant and ongoing operations through a number of loans with Kaw Valley Bank, Topeka, Kansas of which \$633,920 is guaranteed by the U.S. Department of Agriculture ("USDA") Farm Service Agency. The bank loans were restructured to only require interest payments from October 2008 through October 2009. Beginning in November 2009, interest and principal payments were to be required and have not been made. The Company is in arrears on its interest payments and has made no principal payments. Total accrued interest as of December 31, 2009 was \$32,300.

6. Line of credit

The Company has a \$40,000 line of credit with Kaw Valley Bank to draw upon as needed, with an interest rate of 2.25%. This loan is guaranteed by the USDA Farm Service Agency and additionally secured by inventory, supplies and accounts receivable. Total borrowings as of December 31, 2009 were \$40,000 and accrued interest was \$945.

7. Related party transactions

As outlined in note 5 to the financial statements, certain assets have been pledged as collateral for the notes payable to Kaw Valley Bank. Assets pledged include the real estate on which the Dairy is located which is held by Iwig Family Farm, LLC. Generally accepted accounting principles require that management consider the consolidation of a variable interest entity (VIE). A legal entity is considered a VIE, if specific criteria are met including if it does not have sufficient equity at risk to finance its own activities without relying on financial support from other parties. If the legal entity is a VIE, then the reporting entity determined to be the primary beneficiary of the VIE must consolidate it. The Company has determined that consolidation is appropriate for Iwig Family Farm, LLC in which it is the primary beneficiary. The separate LLC was established on April 16, 2010 therefore a proforma consolidated balance sheet as of December 31, 2009 is presented in the supplemental schedule to the financial statements.

8. Subsequent events

Subsequent to December 31, 2009, management has submitted an offering circular to the Office of the Kansas Securities Commissioner for registration to allow public solicitation of LLC membership units in the state of Kansas. The registration was effective April 23, 2010.

SUPPLEMENTAL SCHEDULE

Iwig Family Dairy, LLC
Proforma Consolidated Balance Sheet
DECEMBER 31, 2009

	<u>Iwig Family Dairy, LLC</u>	<u>Iwig Family Farm, LLC</u>	<u>Consolidated</u>
ASSETS			
Current assets			
Accounts receivable	\$ 31,891	\$ -	\$ 31,891
Inventory	17,500	-	17,500
Total current assets	<u>49,391</u>	<u>-</u>	<u>49,391</u>
Livestock and equipment, net	413,236	450,000	863,236
TOTAL ASSETS	<u>\$ 462,627</u>	<u>\$ 450,000</u>	<u>\$ 912,627</u>
LIABILITIES & MEMBERS' EQUITY (DEFICIT)			
Current liabilities			
Bank overdraft	\$ 16,682	\$ -	\$ 16,682
Accounts payable	80,167	-	80,167
Credit cards payable	17,360	-	17,360
Line of credit	40,000	-	40,000
Accrued interest	33,245	-	33,245
Withholding and taxes payable	9,728	-	9,728
Total current liabilities	<u>197,182</u>	<u>-</u>	<u>197,182</u>
Long-term liabilities			
Notes payable	711,582	-	711,582
Total liabilities	<u>908,764</u>	<u>-</u>	<u>908,764</u>
Members' equity (deficit)			
Members' equity (deficit)	(446,137)	450,000	3,863
Total members' equity (deficit)	<u>(446,137)</u>	<u>450,000</u>	<u>3,863</u>
TOTAL LIABILITIES & MEMBERS' EQUITY (DEFICIT)	<u>\$ 462,627</u>	<u>\$ 450,000</u>	<u>\$ 912,627</u>