

ROY SANCHEZ
ASSET BASED LENDING AUDIT SERVICES
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AUDIT REPORT

Company Name:

Address:

Type of Business:

Company Contact:

Phone:

Fax:

Auditor: Roy Sanchez

Months Reviewed: March 2003 to October 2003

Field Days: November 17-19, 2003

Previous Audit: 4/2/03

Date Submitted: November 20, 2003

Lender: Bank of Petaluma

Account Officer:

Phone:

Total Credit Line: \$ 6,500,000

A/R Advance Rate: 75

Inventory Sub-Limit:\$ 2,000,000 \$1,500,000 from 2/1 to 7/31

Inv. Advance Rate: 50 Net of grower payables

Method of Reporting: Monthly

GENERAL INFORMATION

Attorney/Telephone:	Matt Hudson / (707) 762-3399
Accountant/Telephone:	Moss Adams - John Oakley / (707) 527-0800
Date/Type of latest financial statement:	10/31/03 In-house
Fiscal year-end:	6/30
G/L posted through :	10/31/03
A/R Journals through:	10/31/03

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AUDIT DAYS

Auditor	Field	Office	Total
Roy Sanchez	3.00	1.00	4.00
Total	3.00	1.00	4.00

Audit Summary**Books and Records**

At the time of this collateral review, the client had their in-house general ledger and financial statement available through 10/31/03. All bank accounts were reconciled through this date as were receivables and payables. Inventory per the perpetual reports was also reconciled to the general ledger figure (see page 13d). The field audit was conducted with the assistance of Leo Bernardino, an examiner with Union Bank of California.

There has been little change in accounting procedures since the last review. Overall, the records remain satisfactory for bank audit purposes. Collateral reporting remains good. Shipping documents are still maintained at the appropriate warehouse facility but they can be provided with about 2 weeks notice. Since this will probably always be the case, it should be viewed in terms of the overall credit worthiness of the company.

Summary of Audit Findings

- Outstanding receivables at 10/31/03 were \$6,190,620 consisting of 175 open accounts. Of this amount, there was \$329,565 or 5.3% over 60 days past due. This compares to open receivables of \$5,754,320 at 2/28/03, with \$343,043 or 6.0% over 60 days past due.
- The three largest concentrations at 10/31/03 were: United Natural Foods - \$718,431 – 11.6% Mountain People - \$580,821 – 9.4% and Tree of Life - \$515,887 – 8.3%. The bank has established a 30% concentration limit on Natural Foods and 25% on all others.
- A/R turnover for 12 months ended 10/31/03 was 22 days with a dilution rate of 4.5%. For the prior 12 months, turnover was 24 days and dilution was 6.1%. Both areas have shown some improvement over the last 12 months. Dilution consists of early payment discounts, advertising and promotional co-ops, shortages, spoiled good returns, slotting credits and for a variety of other small adjustments.
- A past due review was performed on 83.9% of the dollars over 60 days. Per the client's explanations, potential bad debts / credits are estimated at \$194,437. The client has total reserves of \$1,394,653 consisting of \$179,051 in a bad debt reserve and \$1,215,602 in a chargeback allowance. The reserves appear to be more than adequate.
- A shipping test was performed on sixteen invoices totaling \$900,486 or 14.5% of the total receivables at 10/31/03. As in the prior exam, the client was only able to provide the shipping documents on three invoices. For the most part, shipping documents are still maintained at the appropriate warehouse facility and can be provided with about 2 weeks notice. EDI shipment updates from the public warehouse were provided on five of the invoices. For the most part, invoices with no POD were subsequently paid.
- Based on the ineligible calculation as reflected on page 5 of the report and using the existing 75% advance rate, receivables provided \$4,012,210 in lendable collateral. Ineligible A/R included accounts over 30 days past due, credits over 30, 25% cross aged and foreign accounts (per client provided reports). The company has only been reporting accounts over 60 days past due and foreign accounts as ineligible. The account officer should explain to the client the correct ineligible criteria. In any event, the client still had \$3.5mm in availability at 10/31/03.

Audit Summary**Audit Findings continued**

- Total net inventory per the general ledger at 10/31/03 was \$13,251,762. For a breakdown by location, see pages 13a, 13b & 13c. The net inventory includes a reserve of \$1,468,933. Andy Kopral reconciles the perpetual inventory reports to the general ledger each month (see page 13d).
- Inventory is maintained on a computerized perpetual system valued at standard cost, which is adjusted three times a year, including once at FYE. The examiners selected ten items from the inventory valuation report as of 10/31/03 for test purposes. The client provided costed bill of materials updated through 11/18/03 as backup. Six of the items matched exactly but four had variances, which accounted for the positive 4.0% cost test variance. Per Paul Allen (cost accounting manager) minor changes in the recipe result in changes in the unit cost. The unit cost also changes when the company decides to purchase an ingredient instead of making it. The standard unit cost is updated in the system 3 times a year.
- Full physical counts are done twice a year at all Santa Rosa locations (June & Dec.). Physical counts are done yearly at the outside public warehouses, which are observed by the client from time to time. For all Santa Rosa locations, raw and packaging materials are cycle counted daily with the full value of the inventory counted within a week's time. This procedure was observed by the examiners with satisfactory results. For further comments, see page 15 of the report.
- At 6/30/03, there was a negative inventory adjustment of \$533,156 based on the physical count and year-end adjustments. Of this amount, WIP represented \$326,517. This figure is relatively large because it involves manual calculations from numerous employees.
- Inventory turnover for 4 months ended 10/31/03 was 65 days (based on monthly COGS figures) compared to 66 days for the prior fiscal year.
- Per an analysis of inventory insurance coverage by location (see pages 13b & 13c), the only location that appears to be underinsured is 975 Corporate Center, Santa Rosa, CA 95407. The inventory on hand at 10/31/03 was \$1,866,877 but the insurance amount was for only \$1,750,000. Also, although a certificate of insurance was requested showing Bank of Petaluma & Union Bank as loss payee, it was not provided as of the date of this writing. The account officer may want to follow up on both of these.
- A gross profit test was performed on 19 items totaling \$64,278 in sales. The average margin per the test was 34.9% and the 4 month financial statement dated 10/31/03 reflected a GP of 25.7%. The variance can be attributed to: a) promotion discounts not factored in the analysis, b) sales mix – some products generate a higher GP than others, c) sampling mix – products sampled may not be representative of sales and d) customer mix – profits vary from customer to customer.
- Ineligible inventory as calculated by the examiner totaled \$5,703,899. It included goods over age and on hold, A/P offset for grower payables, raw & packaging materials, WIP and goods in the United Kingdom. See page 5 for details. The company has only been eliminating the A/P offset for grower payables as ineligible on the BBC. As with receivables, the account officer should explain what needs to be included in the inventory ineligible figure. Despite the examiner's larger ineligible figure, the company would have had \$3,774m in lendable collateral using the existing 50% advance rate but the inventory sub-limit was capped at \$2,000m. At 10/31/03, the client had no reliance on the \$2,000m in availability from inventory, as they still had \$1,496m available from receivables for a total net availability of \$3,496m.

*Audit Summary***Audit Findings continued**

- Total payables per the aging dated 10/31/03 were \$2,199,792. Of this amount, there was \$12,305 or 0.6% over 60 days past due. At the prior audit dated 2/28/03, payables were \$3,177,882 with \$30,509 or 1.0% over 60 days past due.
- For a listing of the six largest vendor concentrations and their terms, see page 20 of the report.
- The A/P aging reconciled to the general ledger at 10/31/03.
- A/P turnover for 4 months ended 10/31/03 was 19 days.
- Payroll tax payments were reviewed from 10/1/02 through 11/7/03. Payroll tax payments are handled by Ceridian, who automatically deducts the payroll tax liability from the client's checking account with Bank of Petaluma after each bi-weekly payroll. All payroll tax payments were current. The client does not have any sales tax liability.
- Per the in-house financial statement for 4 months ended 10/31/03, the client has realized a NPAT of \$771,643 on net sales of \$31,065,290. This compares to a NPAT of \$2,291,844 on net sales of \$84,125,172 for the prior fiscal year ended 6/30/03.
- Tangible net worth at 10/31/03, as calculated on page 22 of the report, was \$14,199,970.
- The current ratio at 10/31/03 was 1.5 compared to 1.7 at 6/30/03.

COMPUTATION OF BORROWING BASE AND AVAILABILITY				
	CURRENT AUDIT		PRIOR AUDIT	
	10/31/03	%	2/28/03	%
Total Accounts Receivable	6,190,620	100.0	5,754,320	100.0
Less: Ineligibles (see next page for details)	(841,007)	(13.6)	(634,368)	(11.0)
Eligible Accounts Receivable	5,349,613	86.4	5,119,952	89.0
Total Inventory				
	13,251,762	100.0	12,075,267	100.0
Less: Unacceptable Inventory	(5,703,899)	(43.0)	(5,854,899)	(48.5)
Acceptable Inventory	7,547,863	57.0	6,220,368	51.5
Borrowing Base - A/R @ 75 % 75 %				
	4,012,210	64.8	3,839,964	66.7
Borrowing Base- Inventory 50 % 50 %				
	2,000,000	15.1	1,500,000	12.4
Sublimit (\$ 2,000,000) (\$ 1,500,000)				
Borrowing Base- limit (\$ 6,500,000) (\$ 6,500,000)				
	6,012,210	100.0	5,339,964	100.0
Less: Reserve for L/C Outstanding				
Total Borrowing Base	6,012,210	100.0	5,339,964	100.0
Actual Loan Balance- A/R				
	2,516,268	41.9	2,808,058	52.6
Actual Loan Balance- Inventory				
Total Loan Balance as of 10/31/03				
	2,516,268	41.9	2,808,058	52.6
Available or (Over)- A/R				
	1,495,942	24.9	1,031,906	19.3
Available or (Over)- Inventory				
	2,000,000	33.3	1,500,000	28.1
Total Available or (Over)				
	3,495,942	58.1	2,531,906	47.4
<i>The percentages for the "Loan Balance" and "Available or (Over)" Sections are based on the "Total Borrowing Base".</i>				
Comments :				

INELIGIBLE ACCOUNTS RECEIVABLE

		<i>As of</i>	10/31/03	
			Amount	%
I.	Accounts over	30 days	587,861	9.5%
II.	Credits over	30 days	26,101	0.4%
III.	Cross-aged at	25 %	155,431	2.5%
IV.	Concentration limit	25 %	-	
V.	Foreign Accounts		71,614	1.2%
VI.	Contra Accounts		-	
VII.	Government Accounts		-	
VIII.	Affiliated		-	
Total			841,007	13.6%

Concentration Limit - United Natural Foods - 30%, all others 25%.

INELIGIBLE INVENTORY

		<i>As of</i>	10/31/03	
			Amount	%
I.	Consigned			
II.	Obsolete			
III.	Over Age - Finished goods		2,200	0.0%
IV.	Finished Goods on hold		347,200	2.6%
V.	Grower Payable		885,283	6.7%
VI.	Specialized Inventory			
VII.	Packaging Materials		1,231,377	9.3%
VIII.	Raw Material		2,667,173	20.1%
IX.	Out of the country - UK		42,016	0.3%
X.	Work in Process		528,650	4.0%
XI.				
Total			5,703,899	43.0%

ACCOUNTS RECEIVABLE

Aged According to : Due Date
Selling Terms: 1% 10 Net 20, 2% 10 Net 20, 2% 10 Net 30, Net 30

	CURRENT AUDIT		PRIOR AUDIT	
	10/31/03	%	2/28/03	%
<i>Current</i>	5,175,388	83.6%	4,707,543	81.8%
<i>1-29 days past due</i>	427,371	6.9%	568,695	9.9%
<i>30-60 days past due</i>	258,296	4.2%	135,039	2.3%
<i>61+ days past due</i>	329,565	5.3%	343,043	6.0%
Total	6,190,620	100.0%	5,754,320	100.0%

Number of open accounts 175 199
(000's)

Total per aging at 10/31/03 6,191

Total per GL 6,191

Variance

<u>61+ days past due date as of:</u>	10/31/03	
<i>Paid</i>		
<i>Collectible</i>	103,980	29.2%
<i>Write-off</i>		
<i>Dispute</i>	40,662	11.4%
<i>Credit to be issued (Mfr charge back - MCB)</i>	153,775	43.2%
<i>Litigation</i>		
<i>Credit balances</i>	(26,101)	-7.3%
<i>Not reviewed</i>	57,249	16.1%
Net	329,565	92.7%

HISTORICAL RECEIVABLE TREND ANALYSIS

CLIENT:

Aged By: Due Date

Last 12 Months

Month/ Year	TOTAL	CURRENT	1 - 29	30 - 60	61+	TOTAL %	CURRENT %	1-29 %	30-60 %	61+ %
11/30/02	5,890	5,141	482	45	222	100.0%	87.3%	8.2%	0.8%	3.8%
12/31/02	5,299	4,358	604	104	233	100.0%	82.2%	11.4%	2.0%	4.4%
1/31/03	6,122	5,268	422	192	240	100.0%	86.1%	6.9%	3.1%	3.9%
2/28/03	5,754	4,707	569	135	343	100.0%	81.8%	9.9%	2.3%	6.0%
3/31/03	5,502	4,387	516	191	408	100.0%	79.7%	9.4%	3.5%	7.4%
4/30/03	4,784	3,936	362	138	348	100.0%	82.3%	7.6%	2.9%	7.3%
5/31/03	4,697	3,731	322	264	380	100.0%	79.4%	6.9%	5.6%	8.1%
6/30/03	4,286	3,568	307	146	265	100.0%	83.2%	7.2%	3.4%	6.2%
7/31/03	4,707	3,775	482	222	228	100.0%	80.2%	10.2%	4.7%	4.8%
8/31/03	5,643	4,535	618	194	296	100.0%	80.4%	11.0%	3.4%	5.2%
9/30/03	6,063	5,059	496	170	338	100.0%	83.4%	8.2%	2.8%	5.6%
10/31/03	6,191	5,176	427	258	330	100.0%	83.6%	6.9%	4.2%	5.3%

AVERAGE	5,412	4,470	467	172	303	100.0%	82.6%	8.6%	3.2%	5.6%
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Prior 12 Months

Month/ Year	TOTAL	CURRENT	1 - 29	30 - 60	61+	TOTAL %	CURRENT %	1-29 %	30-60 %	61+ %

AVERAGE										
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SCHEDULE OBJECTIVES

1. REASONABLENESS OF CHANGES IN A/R SPREAD
2. REVIEW UNUSUAL TRENDS AND FLUCTUATIONS

NOTES:

A/R debtor concentrations as of:		10/31/03				
%	Name	Total	Current	1-29	30-60	61+
11.6%	United Natural Foods	718,431	609,113	42,304	41,963	25,051 A
8.3%	Tree of Life	515,887	374,593	55,746	28,527	57,021 B
3.2%	Supervalu	195,586	168,209	5,086	1,014	21,277 C
4.0%	Natures Best	245,911	194,412	13,822	13,177	24,500 C
9.4%	Mountain People	580,821	463,841	92,790	16,077	8,114 C
3.9%	DPI Food Products	239,413	196,435	20,281	11,856	10,840 C
4.9%	Trader Joe's	301,117	257,699	42,095	1,352	(28)
4.0%	Gourmet Award	247,411	232,675	8,517	6,307	(88)
4.6%	Blooming Prairie	283,516	244,338	12,074	25,628	1,476 C
4.1%	Fred Meyer, Inc.	256,602	203,995	46,525	2,723	3,359 C
TOTALS		3,584,696	2,945,310	339,239	148,626	151,521
% of total aging categories		57.9%	56.9%	79.4%	57.5%	46.0%

A. Credit of \$12,051 to be given, balance of \$13,000 is collectible per the client

B. Credit of \$27,021 to be given, balance of \$30,000 is collectible per the client

C. Credit to be given - MCB

D. Unauthorized credit taken - client working on resolving

E. Credit of \$19,568 to be given, balance of \$15,000 is collectible per the client

F. Slow pay but collectible per the client

Largest delinquent accounts 10/31/03

%	Name	Total	Current	1-29	30-60	61+
1.9%	Unified Western	114,984	59,490	3,800	11,032	40,662 D
2.6%	Haddon House	160,353	104,634	12,941	8,210	34,568 E
1.4%	Safeway, Inc.	85,628	56,623			29,005 F
2.2%	C & S Wholesale	134,182	112,148	5,059		16,975 F
0.7%	Koyo Foods, Inc.	43,260	30,484		1,297	11,479 C
0.2%	Millbrook Dist.	13,635	3,985	1,049		8,601 C
1.3%	King Sooper	78,860	64,490	8,881		5,489 C

ACCOUNTS RECEIVABLE ACTIVITY (000's omitted)

MONTH	A/R BOM	PER GENERAL LEDGER				T/O	DILUTION ANALYSIS							GROSS SALES		
		NET SALES	COLLEC-TION	MISC.			C/M	%	CASH DISC	%	MISCELLANEOUS ENTRIES		TOTAL		%	
				DR	CR						Write-off	Other				
Nov-01	5,426	5,832	6,394			25	320	5.2%	69	1.1%				389	6.3%	6,152
Dec-02	4,864	5,090	5,320			27	268	5.0%	55	1.0%				323	6.0%	5,358
Jan-02	4,634	6,644	6,007			23	336	4.8%	65	0.9%				401	5.7%	6,980
Feb-02	5,271	6,675	5,889			27	432	6.1%	67	0.9%				499	7.0%	7,107
Mar-02	6,057	6,319	6,762			27	367	5.5%	77	1.2%				444	6.6%	6,686
Apr-02	5,614	5,749	6,695			25	367	6.0%	73	1.2%				440	7.2%	6,116
May-02	4,668	6,636	6,249			22	346	5.0%	70	1.0%				416	6.0%	6,982
Jun-02	5,055	5,126	5,830			26	309	5.7%	62	1.1%				371	6.8%	5,435
Jul-02	4,351	5,179	5,607			23	279	5.1%	62	1.1%				341	6.2%	5,458
Aug-02	3,923	6,794	5,800			20	291	4.1%	68	1.0%				359	5.1%	7,085
Sep-02	4,917	7,207	6,875			21	44	0.6%	289	4.0%				333	4.6%	7,251
Oct-02	5,249	7,968	7,606			21	69	0.9%	428	5.3%				497	6.2%	8,037
TOTAL	60,029	75,219	75,034			24	3,428	4.4%	1,385	1.8%				4,813	6.1%	78,647

MONTH	A/R BOM	NET SALES	COLLEC-TION	MISC.		T/O	C/M	%	CASH DISC	%	MISCELLANEOUS ENTRIES		TOTAL	%	GROSS SALES
				DR	CR						Write-off	Other			
				Nov-02	5,611						7,257	6,978			
Dec-02	5,890	6,636	7,227			24	55	0.8%	265	4.0%			320	4.8%	6,691
Jan-03	5,299	7,884	7,061			23	116	1.5%	228	2.9%			344	4.3%	8,000
Feb-03	6,122	7,320	7,688			24	13	0.2%	215	2.9%			228	3.1%	7,333
Mar-03	5,754	7,821	8,073			21	32	0.4%	101	1.3%			133	1.7%	7,853
Apr-03	5,502	7,059	7,777			21	30	0.4%	569	8.0%			599	8.4%	7,089
May-03	4,784	5,948	6,035			24	25	0.4%	228	3.8%			253	4.2%	5,973
Jun-03	4,697	6,194	6,605			21	46	0.7%	542	8.7%			588	9.4%	6,240
Jul-03	4,286	6,722	6,301			20	27	0.4%	214	3.2%			241	3.6%	6,749
Aug-03	4,707	6,693	5,757			25	21	0.3%	297	4.4%			318	4.7%	6,714
Sep-03	5,643	8,114	7,694			22	62	0.8%	300	3.7%			362	4.4%	8,176
Oct-03	6,063	9,140	9,012			20	31	0.3%	318	3.5%			349	3.8%	9,171
TOTAL	64,358	86,788	86,208			22	470	0.5%	3,497	4.0%			3,967	4.5%	87,258

Nov-03 6,191

Sales = all 500000 a/c's less discount and less a/c 706030, gross cash receipts = difference, dilution = gross C/R less a/c 100000 and a/c 101000. CM = dr in 500 a/c's

SHIPPING TEST

CLIENT: 0

	CUSTOMER	INVOICE					SHIP DATE	PRE-BILL DAYS	CARRIER	B.O.L. SIGNED (Y/N)	INVOICE TERMS	Dated (Y/N)	
		#	AMOUNT	4	9	DATE							
1	Albertson's Fort Worth	0054896	56,803.68	4	9	10/21/03	(a)	10/20/03	0	No POD but paid 11/6/03		2% 10 Net 30	(b)
2	Berliner Specialty Dist.	0055021	21,193.50	4	9	10/27/03	(a)	10/24/03	0	No POD but paid 11/7/03		2% 10 Net 20	(b)
3	Blooming Prairie Iowa	0055128	76,598.36	4	9	10/31/03	(a)	10/30/03	0	Customer Pick-up Signed	Y	1% 10 Net 20	
4	C & S Wholesale -Aber	0055163	28,612.70	4	9	10/31/03	(a)	10/31/03	0	No POD - EDI posted 11/5/03		2% 10 Net 30	(b)
5	DPI Food Products Co.	0055108	63,124.46	4	9	10/30/03	(a)	10/27/03	0	Will Call, paid 11/10/03	Y	1% 10 Net 20	
6	Fred Meyers, Inc. - WA	0054877	30,736.68	4	9	10/20/03	(a)	10/17/03	0	No POD, EDI posted 10/21/03		2% 10 Net 30	(b)
7	Gourmet Awards - GA	0054964	85,195.75	4	9	10/23/03	(a)	10/23/03	0	No POD but paid on 11/10/03		1% 10 Net 20	(b)
8	Kehe Food Distributors	0055088	57,302.80	4	9	10/29/03	(a)	10/28/03	0	No POD but paid on 11/10/03		1% 10 Net 20	(b)
9	Mountain Peoples NW	0054932	59,067.09	4	9	10/22/03	(a)	10/21/03	0	EDI Shipment Updates Cust. P.O. 0047233		1% 10 Net 20	[c]
10	Safeway Inc.	0055122	56,622.48	4	9	10/31/03	(a)	10/30/03	0	EDI Shipment Updates Cust. P.O. 0047499		Net 30	[c]
11	Supervalu - Richmond	0054726	44,427.38	4	9	10/13/03	(a)	10/10/03	0	No POD but paid on 11/3/03		2% 10 Net 30	(b)
12	Trader Joe's Co. - MA	0055035	71,355.92	4	9	10/28/03	(a)	10/24/03	0	Dariell Klecko J. Trucking	Y	Net 30	
13	Tree of Life Southwest	0055168	46,700.37	4	9	10/31/03	(a)	10/31/03	0	EDI Shipment Updates Cust. P.O. 0047553		1% 10 Net 20	[c]
14	United Natural - PA	0055037	71,384.89	4	9	10/28/03	(a)	10/27/03	0	EDI Shipment Updates Cust. P.O. 0047470		1% 10 Net 20	[c]
15	West Pico	0054934	68,826.15	4	9	10/22/03	(a)	10/21/03	0	No POD but paid 11/4/03		1% 10 Net 30	(b)
16	United Natural - CT	0054963	62,533.69	4	9	10/23/03	(a)	10/22/03	0	EDI Shipment Updates Cust. P.O. 0047257		1% 10 Net 20	[c]

TOTAL	900,485.90
% TO A/R	14.5%

4 = invoice agrees to aging

9 = invoice tested for mathematical accuracy

**Note: Per KC, they do not normally ask and k
If it is really necessary to produce the PO
invoice, they can be obtained but it will tak**

SCHEDULE OBJECTIVES

- 1 TEST VALIDITY OF INVOICE
2. ACCURACY OF AGING
3. VALIDITY OF ASSIGNMENT
4. UNUSUAL TERMS OR OTHER
5. ASSESSMENT OF BILLING PROCEDURES

AGING DATE: 10/31/03 TOTAL AR: 6,190,620

Notes: (Comment on any Pre-Billing)

a) The detail aging does not show the invoice date

b) Ship Date is per Invoice, except for those with POD. There is no POD in file.

Paid, and copy of check is filed with the invoice.

c) Public warehouses issue EDI Shipment Updates report that shows items shipped by customer purchase order

This report triggers the printing of the invoice.

ADDITIONAL COMMENTS ON ACCOUNTS RECEIVABLE

1. Describe the general condition of the receivable records:

There has been no significant change in accounts receivable procedures since the last review. For the most part, shipping documents are still maintained at the appropriate warehouse facility and can be provided with about 2 weeks notice. Other than this, the remaining accounts receivable records were satisfactory for bank audit purposes. Accounts receivable agings can be run based on due date or invoice date. The one provided for this review was based on due date.

	<u>Yes</u>	<u>No</u>	<u>N/A</u>
2. Does the client have any notes or postdated checks on hand?	_____	X	_____
3. Are there any bill & hold invoices on the aging?	_____	X	_____
4. Are there any consignment or guaranteed sales on the aging?	_____	X	_____
5. Does the client have credit insurance?	_____	X	_____
6. Does the client offer any special return privileges?	1	_____	_____
7. Are A/R agings accurate and reliable?	X	_____	_____
8. Is the client current in issuing credit memos?	X	_____	_____
9. Is overall shipping documentation satisfactory?	_____	2	_____
10. Are there any customer deposits or advance payments in any other account in the general ledger?	_____	X	_____

1. The client offers return privileges on product on the shelf over one year but this rarely occurs.

2. Goods are shipped from public warehouses and are only provided to the client

whenever there is a problem. Electronic notification (EDI) of goods shipped from the public warehouse was available in some cases.

NOTES RECEIVABLE

Debtor name	Security	Date of note	Original amount	Monthly pymt	Present balance	current	
						Y	N
None noted							
Total							

Additional comments on notes receivable:

There are no trade notes receivable.

INVENTORY REVIEW

The company is a: **manufacturer** _____
 wholesaler _____
 distributor _____
 frozen food mfr. X

Figures taken from:

Perpetual _____
 G/L X
 Estimate _____

DESCRIPTION AND LOCATION

1. Breakdown of inventory as of: 10/31/03

<u>Location (address)</u>	<u>Total Inventory</u>	<u>%</u>	<u>Raw Material</u>	<u>WIP Absorbed</u>	<u>Finished Goods</u>	<u>Packaging</u>
a) Various	13,251,762	100.0%	2,667,173	(580,524)	9,933,736	1,231,377
See page 13a for details	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____
Total	13,251,762	100%	2,667,173	(580,524)	9,933,736	1,231,377
	100.0%		20.1%	-4.4%	75.0%	9.3%

<u>Inventory Locations</u>	(a)	_____	_____	_____	_____	_____
Visited (Yes/No)	Yes	_____	_____	_____	_____	_____
Owned/Leased	1	_____	_____	_____	_____	_____
Frequency of physical counts	2x / yr	_____	_____	_____	_____	_____
Last physical count	6/30/03	_____	_____	_____	_____	_____
Next physical count	12/31/03	_____	_____	_____	_____	_____
Amount of Insurance coverage	\$18,950m	_____	_____	_____	_____	_____
Bank named as loss payee	_____	_____	_____	_____	_____	_____

(1) The facility at Northpoint Pkwy. is owned by the principal's and leased to the company.
 The office located at Capricorn Way is leased.

Daily cycle counts are performed at all the Santa Rosa locations. Within a weeks time, the full inventory is counted.
 Full physical counts are done at the public warehouses once a year at FYE. From time to time, company personnel observe the physical count.

INVENTORY SUMMARY AS OF 10/31/03:

<u>Category</u>	Valuation Report		General Ledger		Valuation Rep Over (Under) <u>Gen. Ledger</u>
	10/31/03	10/31/03	%	GL A/C #	
Raw Materials Others		\$ -			
Outside Raw - Mi Ranch		\$ -			
Outside Raw - Atwater		\$ -			
Outside Raw Materials		\$ -			
Raw Materials - Dairy		\$ 53.0	0%	102100	
Raw Materials - Frozen Vegetables		\$ 504.1	4%	102200	
Raw Materials - Raw Vegetables		\$ -			
Raw Materials - Fresh Vegetables		\$ 281.6	2%	102210	
Grains & Flours		\$ 52.9	0%	102300	
Oils & Otherf Liquids		\$ 889.8	7%	102400	
Raw Materials - Spices		\$ 12.7	0%	102500	
Raw Materials - Variance		\$ 783.5	6%	102900	
Dairy Variance		\$ 63.4	0%	102910	
FRZ Veg Variance		\$ (26.8)	0%	102920	
Fresh Vegetable Variance		\$ (4.3)	0%	102930	
Grains & Flours Variance		\$ 32.5	0%	102940	
Oils & Otherf Liquids Variance		\$ 26.7	0%	102950	
Spices Variance		\$ (1.9)	0%	102960	
TOTAL RAW MATERIALS	\$ 3,909.6			\$ 2,667.2	\$ 1,242.4
Packaging Materials - Plant		\$ 2,305.2	17%	103000	
Packaging Materials - Variance		\$ (1,073.8)	-8%	103900	
TOTAL PACKAGING MATERIALS	\$ 965.6			\$ 1,231.4	\$ (265.8)
Finished Goods		\$ 9,730.3	73%	104000	
FG In Transit		\$ 275.7	2%	104500	
FG Variance		\$ (72.3)	-1%	104900	
TOTAL FINISHED GOODS	\$ 9,845.6			\$ 9,933.7	\$ (88.1)
Work In Process - Raw Materials		\$ 423.0	3%		
Work In Process - Packaging		\$ 18.1	0%		
Work In Process - Labor		\$ (19.9)	0%		
WIP - Sub-assemblies		\$ 467.2	4%	\$ 888.4	
Inventory Reserve		\$ (771.6)	-6%		
Inventory Quantity & Price Adjustments	\$ (1,468.9)	\$ (697.3)	-5%	\$ (1,468.9)	
TOTAL WORK IN PROCESS					
Total	\$ 13,251.9	\$ 13,251.8	100%	\$ 13,251.8	\$ 0.1

Note: Please refer to Andy's Reconciliation

INVENTORY BY LOCATIONInventory Per Stock Status Report As Of: **10/31/03**

<u>Code</u>	<u>Location</u>	<u>Footnote</u>	Finished <u>Goods</u>	Raw <u>Materials</u>	<u>WIP</u>	Packaging <u>Materials</u>	<u>Total</u>	Insurance <u>Amount</u>	<u>Comments</u>
Plant	2330 Northpoint Parkway Santa Rosa, CA 95407		\$ 1,035,390.00	\$ 842,283.00	\$ 528,650.00	\$ 196,492.00	\$ 2,602,815.00	\$ 2,700,000.00	
975	975 Corporate Center Santa Rosa, CA 95407	A	\$ 608,601.00	\$ 500,416.00		\$ 757,860.00	\$ 1,866,877.00	\$ 1,750,000.00	Under-insured
Apollo	1234 Apollo Way Santa Rosa, CA		\$ 148,046.00	\$ 196,791.00		\$ 11,205.00	\$ 356,042.00	\$ 500,000.00	
Union City	US Cold Storage 3340 Dowe Ave. Union City, CA 94587		\$ 2,908,041.00	\$ 1,113,964.00		\$ -	\$ 4,022,005.00	\$ 6,500,000.00	
Smyrna	125 Threet Industrial Blvd. Smyrna, TN 37167		\$ 1,598,933.00				\$ 1,598,933.00	\$ 2,500,000.00	
ECW	East Coast Warehouse 1140 Polaris Street Elizabeth, NJ 07201		\$ 685,914.00				\$ 685,914.00	\$ 1,000,000.00	
PCWC	Pacific Coast Warehouse 33201 Dowe Avenue Union City, CA 94587		\$ 1,321,719.00				\$ 1,321,719.00	\$ 1,500,000.00	
MILLARD	Millard Refrigerated Service 7132 Ruppsville Rd. Allentown, PA 18106		\$ 1,402,619.00				\$ 1,402,619.00	\$ 1,500,000.00	
TRACY	US Cold Storage 1400 N. MacArthur Dr. Tracy, CA 95376			\$ 395,043.00			\$ 395,043.00	\$ 750,000.00	

INVENTORY BY LOCATION CONTINUEDInventory Per Stock Status Report As Of: **10/31/03**

<u>Code</u>	<u>Location</u>	<u>Footnote</u>	<u>Finished Goods</u>	<u>Raw Materials</u>	<u>Packaging Materials</u>	<u>Total</u>	<u>Insurance Amount</u>	<u>Comments</u>
UNNAMED								
	Morrow Cold Storage - Oregon			\$ 99,076.00		\$ 99,076.00		
	Everfresh - Oregon			\$ 11,091.0		\$ 11,091.00		
	Norsun - Idaho			\$ 39,853.00		\$ 39,853.00		Total value of inventory at
	Surefresh - CA			\$ 8,997.00		\$ 8,997.00		insured unnamed location
	Pleasant Grove			\$ 55,112.00		\$ 55,112.00		\$468,728. These are public
	Wilbur Ellis - CA			\$ 83,961.00		\$ 83,961.00	\$ 250,000.00	warehouses which might
	CCS - Watsonville, CA			\$ 26,464.00		\$ 26,464.00		maintain separate insurance
	IWI - Indianapolis		\$ 94,290.00			\$ 94,290.00		coverage on stock.
	Nature Quality - San Martin, CA			\$ 4,217.00		\$ 4,217.00		
	Mi Rancho - San Leandro, CA			\$ 3,651.00		\$ 3,651.00		
	UK		\$ 24,896.00			\$ 24,896.00		
	UK DRY		\$ 17,120.00			\$ 17,120.00		
TOTAL FOR ALL LOCATIONS:			\$ 9,845,569.00	\$ 3,380,919.00	\$ 528,650.00	\$ 965,557.00	\$ 14,720,695.00	\$ 18,950,000.00

Footnotes:

- A - Locations Visited This Audit
- B - Locations Visited In The Prior Audit
- C - Landlord's Waiver In Place Per Lending Unit
- X - Waived Landlord's Waiver Per Lending Unit

INVENTORY TURNOVER

		<u>Total Inventory</u>	<u>Inventory Turnover Days</u>
Current Audit Date	<u>10/31/03</u>	<u>13,251,762</u>	<u>70</u>
Last Fiscal Year End	<u>6/30/03</u>	<u>12,095,604</u>	<u>69</u>
Change in Inventory and Turnover Increase/(Decrease)		<u>1,156,158</u>	<u>1</u>
Percentage Change		<u>9.6</u>	
Industry Norm - RMA (SIC # _____)			

Comment on any significant changes in inventory levels or turnover days.

Inventory levels have risen as sales have increased. Turnover has remained consistent.

INVENTORY CONTROL PROCEDURES

1. Inventory Accounting System:

Perpetual	<u> X </u>
Periodic	<u> </u>
Estimated	<u> </u>

a) Describe the record keeping procedures and the types and frequency of reports generated.

Inventory is maintained on a computerized perpetual system at standard cost. On a monthly basis, the perpetual is reconciled to the general ledger. Full physical counts are done twice a year at all Santa Rosa locations (June & Dec). Physical counts are done yearly at the outside public warehouses, which is observed by the client from time to time. Daily cycle counts are also done in Santa Rosa and over a week's time, the full inventory is counted.

b) Amount and reason for any inventory adjustments at year end.

<u>6/30</u>	20	<u>03</u>	\$	<u>(533,156)</u>
<u> </u>	20	<u> </u>	\$	<u> </u>

Of this amount, WIP represented \$326,517. This figure is relatively large because it involves manual calculations from numerous employees.

Effect on financial performance?

Not significant in light of the profitability of the company.

INVENTORY QUESTIONS:

- 1 Type of Inventory Control
 - a) Perpetual Inventory System? Yes
 - b) Process Cost Accounting? Yes
 - c) Standard Cost - Yes
 - d) Frequency of Complete Physical count - changed to semi-annual (June and December) from 3 times a year at the Santa Rosa plant
 - e) Frequency of Cycle Count (at the Santa Rosa locations) daily cycle count so that the entire stock is counted within a week's time
- 2 Breakdown of Inventory dollar by location 10/31/03
 - a) Most the finished goods inventory is located a public warehouse in Union City, CA
 - b) No consigned goods at 10/31/03. Occasionally goods are consigned to Costco.
 - c) Finished Goods outside the United States (UK \$42,016). **It is recommended that FG outside the US be ineligible for borrowing purposes.**
 - d) Some raw materials are also offsite at contract processors' locations.
 - e) Please refer to the valuation report at 10/31/03

3 Breakdown of Inventory by Products, eg.. RM, FG (in	General Ledger	Valuation Report	GL Over (Under) Valuation Rep
Raw Materials	\$ 2,667.2		\$ 2,667.2
Packaging Materials	\$ 1,231.4		\$ 1,231.4
Finished Goods	\$ 9,933.7		\$ 9,933.7
Total	\$ 13,832.3	\$ -	<u>\$ 13,832.3</u>
Work-in-Process	\$ 888.4		See Andy's
Inventory Reserve	\$ (771.6)		Reconciliation
Inventory Quantity & Price Adjustments	<u>\$ (697.3)</u>		
NET INVENTORY	<u>\$ 13,251.8</u>		

- 4 Types of inventory management reports can you generate eg Turnover; Sales Mix; etc.
 - a) According to Paul Allen, Cost Accounting Manager, only a Valuation Report is generated monthly.
 - b) Reportedly, their system also has the capability of generating other inventory reports.
- 5 Do you have the capability of generating:
 - a) The Company follows certain procedures for determining disposition of aging and overage finished goods and raw materials every quarter (August, November, February, and May). For the quarter ended 8/31/03, the following inventories are considered old, on hold, obsolete, over aged:

		<u>Comments</u>
Raw Materials On Hold	\$ 94.2	
Outside Raw Materials - Old	\$ 172.7	
Obsolete Raw and Packaging Materials	\$ 97.3	
Over Age Finished Goods	\$ 2.2	
First Quality Aging Finished Goods	\$ 90.0	First Quality-Aging Finished Goods are frozen items that are 6-10 months old and Jar/Canned items that are 18-28 months old.
Finished Goods on Hold	<u>\$ 347.2</u>	These items are put on hold for a variety of reasons (second quality - over 10 months old for frozen and over 28 months for jars/ canned, for donation, quality hold, state restrained, and for disposal
	\$ 803.6	

Should recommend that Hold & Old inventory be ineligible for borrowing

5a Shelf life of inventory -

Frozen 12 Months
Dry (Canned) 30 months

See the enclosed company procedures for determining disposition of aging or overage finished goods.

6 Types of reports received from public warehouses

Inventory Report by Item and Lot code, which is reconciled to the Borrower's system

For Union City Warehouse, there were 31 units adjusted in the Borrower's system - as a result of the reconciliation.

7 a) Inventory test count -

- Not performed - reportedly it is difficult to count the inventory at the plant, primarily because there is no locator system. Similar items are not stored in the same area due to the date of production.
- In lieu of a test count, the Union City Reconciliation was reviewed.

b) Gross Profit Test - Please refer to the workpaper.

c) Cost analysis - not applicable. The Company is a manufacturing concern.

8 How often do you update your standard cost? Three times a year, including once at fiscal year-end.

9 Inventory Write-downs - the report is not available

10 Potential Lien on the Inventory?

Growers lien

a) Do you buy from growers? Yes,

Should recommend that outstanding payables to growers be reserved against the borrowing base.

11 See Inventory Activity - Inventory is turning well

12 Determine whether landlord waivers have been obtained for each leased location
(Roy will ask Petaluma Bank)

13 Insurance coverage for Business Property Insurance:

Total Coverage is \$18,950M

Bank of Petaluma is Loss Payee on the policy

13a Other Information: (Please refer to the Inventory By Location for the inventory values and insurance coverage at each location)

Plant Address

2330 North Point

Santa Rosa, CA

Cost Accounting Manager

Paul Allen (707) 578-7188

INVENTORY ACTIVITY

<u>MO/YR</u>	<u>Inventory Balance</u>	<u>Cost of Goods Sold</u>	<u>MTD Turn</u>	<u>YTD Turn</u>	<u>Comments</u>
Beg. Bal	\$ 10,641.9				
Jul-02	10,864.5	4,173.3	76	76	
Aug-02	10,884.6	5,345.7	61	68	
Sep-02	10,711.7	5,550.8	59	64	
Oct-02	11,118.8	5,920.4	54	62	
Nov-02	11,302.9	5,505.8	61	61	
Dec-02	11,351.6	5,117.1	66	62	
Jan-03	11,767.7	5,720.6	60	62	
Feb-03	12,075.3	5,361.6	66	62	
Mar-03	12,028.0	6,007.1	60	62	
Apr-03	11,889.1	5,362.4	67	63	
May-03	12,149.6	4,547.2	78	64	
Jun-03	12,095.6	3,727.6	98	66	
FYE	\$ 148,881.3	\$ 62,339.6		66	
Jul-03	12,155.4	5,261.8	69	69	
Aug-03	12,870.8	5,173.6	70	70	
Sep-03	13,118.6	6,010.0	64	68	
Oct-03	13,251.8	6,636.6	59	65	

FYE \$ 63,492.2 \$ 23,082.0

AVERAGE INVENTORY TURNOVER

	<u>MO/YR</u>	<u>TURN DAYS</u>
4 Months Ended	Oct-03	65
4 Months Ended	Oct-02	62
Prior Fiscal Year End:	Jun-03	66
Previous FYE:	Jun-02	68

TEST COUNT

As of: 11/19/03

No	Item Description	Quantity on Hand	Unit Cost	Extended Cost	Per Count	Variance		Ref
						Quantity	Cost	
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
Sub-Total								
Total Variance								
<u>Total inventory</u>		\$			%			

Comment:

For all Santa Rosa locations, raw and packaging materials are cycle counted daily with the full value of inventory counted within a week's time. The same rows are counted on the same day each week. For the cycle count, the warehouse manager prints a report of all the items that are located in the rows to be counted. The warehouse personnel take a physical count that is compared to the quantity on hand on that day. Small variances are immediately adjusted but larger variances are researched to determine why the variance has occurred. The examiners visited the warehouse at 975 Corporate Center, Santa Rosa, CA 95407 to observe the cycle count in progress. The procedures in place appear to be satisfactory. The examiner recommended that blind counts be used from time to time, so that the warehouse people could not see what they were trying to balance to. By the next audit, the examiner was informed that finished goods will be bar coded, so tracking for this should be improved as manual input will be minimized. Overall, results were satisfactory.

COST TEST

As of: 10/31/03

No	Item Description	Qty on Hand	Unit Cost	Extended Cost	Vendor Price	Unit Var.		Total Variance		Vendor/ Reference
						\$		\$	%	
1	Cheese Enchilada									
	000080	21,695	14.40	312,408	\$ 14.40					
2	Vegetable Lasagna									
	000032	2,834	13.45	38,117	\$ 13.45					
3	Pesto Pizza									
	0000104	19,905	17.33	344,954	\$ 18.82	1.49		29,658	8.6%	A
4	Indian Mattar Paneer									
	000058	3,065	14.78	45,301	\$ 14.78					
5	Shepherd's Pie									
	000023	9,397	9.98	93,782	\$ 10.78	0.80		7,518	8.0%	A
6	Vegetable Pot Pie									
	000020	6,366	10.07	64,106	\$ 11.01	0.94		5,984	9.3%	A
7	Apple Toaster Pops									
	000151	4,049	16.07	65,067	\$ 16.07					
8	Thai Stir Fry									
	000132	2,387	13.39	31,962	\$ 13.57	0.18		430	1.3%	A
9	Nacho Snacks									
	000123	2,362	14.37	33,942	\$ 14.37					
10	Ravioli with Sauce									
	000091	3,262	15.16	49,452	\$ 15.16					
Total		75,322	139	1,079,091	142	3		43,590	4.0%	

Comment:

The unit cost per the Inventory Valuation report is as of 10/31/03. The costed bill of materials are updated as of 11/18/03.
 A. Per Paul Allen, minor changes in the recipe result in changes in the unit cost. The unit cost also changes when the company decides to purchase or make one of the ingredients. The standard unit cost is updated three times a year.

GROSS PROFIT TEST

CLIENT:

					1	2	3	4	5	6	7
CUSTOMER	INVOICE #	INVOICE DATE	ITEM #	ITEM DESC.	Qty	EXTENDED		EXTENDED		PROFIT (3 - 5)	PROFIT MARGIN (%) (6 / 3)
						UNIT PRICE	PRICE (1 x 2)	UNIT COST	COST (1 x 4)		
Albertson's Forthworth	54896	10/21/03	000103	RV Pizza	972	29.22	28401.84	19.35	18808.20	9593.64	33.78%
Berliner Specialty Dist.	55021	10/27/03	000010	CV Burger	24	26.64	639.36	20.73	497.52	141.84	22.18%
Blooming Prairie - Iowa	55128	10/31/03	000123	Nacho Snacks	84	20.44	1716.96	14.37	1207.08	509.88	29.70%
C & S Wholesale - Aber.	55163	10/31/03	000104	Pesto Pizza	144	29.42	4236.48	17.33	2495.52	1740.96	41.09%
DPI Food Products Co.	55108	10/30/03	000033	Tofu Lasagna	143	23.96	3426.28	12.91	1846.13	1580.15	46.12%
Fred Meyers	54877	10/20/33	000023	Shep. Pie	48	17.73	851.04	9.98	479.04	372.00	43.71%
Gourmet Awards	54964	10/23/03	000022	Mex. Tam Pie	48	15.91	763.68	8.57	411.36	352.32	46.13%
Kehe Food Distributors	55088	10/29/03	000080	Cheese Enc.	154	21.33	3284.82	14.40	2217.60	1067.22	32.49%
Kehe Food Distributors	55088	10/29/03	000102	Spin. Pizza	192	23.10	4435.20	14.79	2839.68	1595.52	35.97%
Supervalu - Richmond	54726	10/13/03	000178	S. Pasta Shells	90	26.32	2368.80	15.99	1439.10	929.70	39.25%
Supervalu - Richmond	54726	10/13/03	000020	Veg. Pot Pie	120	17.73	2127.60	10.07	1208.40	919.20	43.20%
West Pico	54934	10/22/03	000160	Teriyaki Bwl	20	23.87	477.40	15.63	312.60	164.80	34.52%
West Pico	54934	10/22/03	000070	BR Burrito	180	13.20	2376.00	7.02	1263.60	1112.40	46.82%
Blooming Prairie - Iowa	55128	10/31/03	000153	SCC Tst Pops	180	20.53	3695.40	19.21	3457.80	237.60	6.43%
Blooming Prairie - Iowa	55128	10/31/03	000058	I. M. Paneer	72	24.31	1750.32	14.78	1064.16	686.16	39.20%
DPI Food Products Co.	55108	10/30/03	000091	Raviolli/Sauce	55	23.96	1317.80	15.16	833.80	484.00	36.73%
Fred Meyers	54877	10/20/33	000030	Mac. & Ch.	22	17.73	390.06	10.22	224.84	165.22	42.36%
Gourmet Awards	54964	10/23/03	000041	GV Lasagna	44	24.35	1071.40	15.96	702.24	369.16	34.46%
Fred Meyers	54877	10/20/33	000161	BRV Bowl	36	26.32	947.52	14.54	523.44	424.08	44.76%

TOTALS

64277.96

22445.85

34.92%

Note: Variance may be attributed to:

- a) Promotion discounts not factored in the analysis
- b) Sales mix - some products generate more profit than others
- c) Sampling mix - products sampled may not be a representative of sales
- d) Customer mix - profit margin on one customer is higher than another

GROSS MARGIN FOR THE FYTD 10/31/03

25.70%

FIXED ASSETS

as of: 10/31/03

<i>Description of asset</i>	<i>Asset cost</i>	<i>Depreciation/ Amortization</i>	<i>Net book value</i>
Equipment Deposits	198,104		198,104
Plant Equipment	17,880,345		17,880,345
Automotive Equipment	145,051		145,051
Computer Equipment	1,073,295		1,073,295
Office Equipment	192,743		192,743
Leasehold Improvements	6,772,051		6,772,051
Accumulated Depreciation		11,021,545	(11,021,545)
Total	26,261,589	11,021,545	15,240,044

INSURANCE

Insurance Broker	S.P. Tarantino Insurance Brokerage		Phone	(415) 928-1711
Insurance Company	Policy Type	Limit of Coverage	Policy #	Expiration date
Fireman's Fund	General Liability	2,000,000	S95MZX80815708	7/1/04
Fireman's Fund	Bus. Personal Property	18,950,000	OC96128200	7/1/04
Fireman's Fund	Bus. Real Property	20,000,000	S95MZX80815708	7/1/04
Fireman's Fund	Business Income	12,000,000	S95MZX80815708	7/1/04
Fireman's Fund	Building - Sprinkler	2,500,000	S95MZX80815708	7/1/04
Zurich American Insurance Co	Workers Comp	1,000,000	WC 8298518-00	12/1/03

Are all insurance premiums current? **Yes**

Is the bank named as the loss payee on the policy? **A**

Other comments:

A. Although the certificate of insurance was requested from the insurance broker, it was not provided as of the date of this writing. The account officer may want to follow up on this.

CASH REVIEW

as of: 10/31/03

<i>Type/Purpose</i>	<i>Bank</i>	<i>Book balance</i>	<i>Avg bank bal(3 mos)</i>	<i>Reconciled through</i>	<i>Cancelled cks reviewed for</i>
Gen. a/c - Line of credit	Bank of Petaluma - A	(2,516,268)	814,358	10/31/03	-
Payroll account	Bank of Petaluma	797	190,908	10/31/03	-
Money Market	Bank of Petaluma	66,833	66,742	10/31/03	-
Petty Cash	-	2,472	-	-	-
Medical Insurance a/c	Bank of Petaluma	421	5,100	10/31/03	-
UK - General	Barclays Bank	98,615	84,299	10/31/03	-
Total		169,138			

A. The client's bank reconciliation combines the checking account with the line of credit. A/R collections are deposited in the checking account and then swept against the line after the clearing period.

Book O.D. aging as of: 10/31/03

<i>Current month</i>		<i>Comment on book overdraft status:</i>
<i>1 month prior</i>		
<i>2 months prior</i>		N/A
<i>3 or more months prior</i>		
Total		

Are there any held checks? If yes, how much? None per KC

Bank overdraft (general account)

<i>Month</i>	<i>Frequency of O.D.</i>	<i>Range of overdraft amount</i>
Jul-03	-	-
Aug-03	-	-
Sep-03	-	-
Oct-03	-	-

Any large, nonroutine checks, unusual cash disbursement or large checks payable to "CASH"?

Any unusual cash receipts? Not reviewed

ACCOUNTS PAYABLE

Accounts payable agings by Due date	CURRENT AUDIT		PRIOR AUDIT	
	10/31/03	%	2/28/03	%
<i>Current</i>	2,117,756	96.3%	2,737,075	86.1%
<i>1-30 days past due</i>	14,047	0.6%	358,567	11.3%
<i>31-60 days past due</i>	55,684	2.5%	51,731	1.6%
<i>61+ days past due</i>	12,305	0.6%	30,509	1.0%
<i>Subtotal accounts payable</i>	2,199,792	100.0%	3,177,882	100.0%
<i>Book overdraft</i>				
Total A/P & book overdraft	2,199,792	100.0%	3,177,882	100.0%

Total written special terms

-		-	
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Turnover: 19 days

For 4 months ended 10/31/03

A/P control reconciled to G.L. as of:

10/31/03

General ledger

2,199,792

A/P aging

2,199,792

Variance

Comment on the general condition of accounts payable records:

The accounts payable records & status remain in satisfactory condition.

Major A/P concentrations as of: 10/31/03

Name	%	Total	Current	1-30	31-60	61+	Terms
United States Cold Storage	8.8%	192,925	192,589	336			Upon Rec
Teasdale Quality Foods	4.7%	104,216	150,993	(46,777)			Net 21
Escalon Premier Brands	4.5%	98,800	98,800				Net 30
Prime, Inc.	3.8%	84,062	84,062				Net 15
Pacific Cheese Co.	3.2%	71,270	71,270				Net 21
Sonoma County Tax Collector	3.1%	68,559	68,559				Due 11/1/03
Total	28.2%	619,832	666,273	(46,441)			

PAYROLL TAXES

Federal ID # 68-0154899

Federal

Period	Date	Check #	Amount	
4th Qtr 2002	Various	Paychex	\$939,160.86	
1st Qtr 2003	Various	Ceridian	\$1,120,761.62	
2nd Qtr 2003	Various	Ceridian	\$933,790.51	
3rd Qtr 2003	Various	Ceridian	\$1,135,503.40	
10/10/03	10/9/03	Ceridian	\$179,368.82	Includes all States
10/24/03	10/23/03	Ceridian	\$186,550.25	Includes all States
11/7/03		Ceridian	\$182,152.23	Includes all States

State - CA

ID # 352-5489-5 CA

4th Qtr 2002	Various	Paychex	\$70,789.05	
1st Qtr 2003	Various	Ceridian	\$236,260.26	
2nd Qtr 2003	Various	Ceridian	\$131,340.43	
3rd Qtr 2003	Various	Ceridian	\$135,171.66	

Sales Tax

N/A

Additional Comments:

Payroll taxes are handled by Ceridian, who automatically deducts the payroll tax liability from the client's checking account with Bank of Petaluma after each bi-weekly payroll. All payroll tax payments were current.

The client does not have any sales tax liability.

FINANCIAL ANALYSIS

	4 Mos. Ended 10/31/03		12 Mos. Ended 6/30/03 (FYE)	
Net Sales	31,065,290	100.0%	84,125,172	100.0%
Cost of Sales	23,081,978	74.3%	62,339,542	74.1%
Gross Profit	7,983,312	25.7%	21,785,630	25.9%
Operating Profit (Loss)	1,422,332	4.6%	4,308,143	5.1%
Net Profit (Loss) before Taxes	1,243,012	4.0%	3,615,655	4.3%
Net Profit (Loss) after Taxes	771,643	2.5%	2,291,844	2.7%
Cash Gain (Loss)	1,688,621	5.4%	4,717,941	5.6%

Statement of Working Capital	10/31/03	6/30/03	Change
Current Ratio	1.5	1.7	
Current Assets	20,477,895	16,875,831	3,602,064
Current Liabilities	13,268,255	10,226,322	3,041,933
Working Capital	7,209,640	6,649,509	560,131
Net Fixed Assets	15,240,044	15,357,267	(117,223)
Other Assets	56,124	55,674	450
Total	22,505,808	22,062,450	443,358
Deferred Liabilities	7,134,458	7,462,743	(328,285)
Net Worth per Books	15,371,350	14,599,707	771,643
Inventory turnover days	68.9	69.9	

Analysis of Tangible Net Worth		10/31/03
Common Stock Per Books		20,477
Additional Paid in Capital		39,317
Beginning Retained Earnings	6/30/03	14,539,913
Profit or (Loss)	10/31/03	771,643
Net Worth Per Books	10/31/03	15,371,350
Deduct Intangibles		
	Accounts Receivable - other	(166,793)
	Income Tax Receivable	(15,302)
	Prepaid Expenses	(571,343)
	Deferred Taxes	(361,818)
	Rent Deposit	(56,124)
Add Subordinated Debt		
Tangible Net Worth	10/31/03	14,199,970