

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2009

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

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TYLER, SIMMS & ST. SAUVEUR, P.C.
Certified Public Accountants & Business Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Littleton Consumer Cooperative Society, Inc.:

We have audited the accompanying balance sheet of Littleton Consumer Cooperative Society, Inc. as of December 31, 2009, and the related statements of operations, members' deficit and cash flows for the year then ended. These financial statements are the responsibility of the Littleton Consumer Cooperative Society, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Littleton Consumer Cooperative Society, Inc. as of December 31, 2009, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Tyler, Simms and St. Sauveur, CPAs, P.C.

Lebanon, New Hampshire
March 18, 2010

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.
BALANCE SHEET
DECEMBER 31, 2009

ASSETS

| | |
|-----------------------------------|----------------------------|
| CURRENT ASSETS: | |
| Cash and cash equivalents | \$ 100,593 |
| Receivables | 5,033 |
| Inventory | 289,294 |
| Prepaid expenses | <u>7,956</u> |
| Total current assets | <u>402,876</u> |
| | |
| PROPERTY AND EQUIPMENT, at cost | 3,778,560 |
| Less: Accumulated depreciation | <u>(102,735)</u> |
| Property and equipment, net | <u>3,675,825</u> |
| | |
| OTHER ASSETS: | |
| Investments in other cooperatives | 11,222 |
| Financing costs, net | 61,740 |
| Deposits and other | 6,950 |
| Deferred income taxes | <u>100,439</u> |
| Total other assets | <u>180,351</u> |
| | |
| TOTAL ASSETS | \$ <u>4,259,052</u> |

LIABILITIES AND MEMBERS' DEFICIT

| | |
|--|----------------------------|
| CURRENT LIABILITIES: | |
| Line of credit | \$ 50,000 |
| Accounts payable | 211,278 |
| Accrued expenses and other current liabilities | 103,496 |
| Income taxes payable | 1,500 |
| Current deferred income taxes | 3,274 |
| Current portion of long-term debt | <u>212,975</u> |
| Total current liabilities | <u>582,523</u> |
| | |
| LONG-TERM LIABILITIES: | |
| Long-term debt, excluding current portion | 3,228,684 |
| Member loans | <u>483,500</u> |
| Total long-term liabilities | <u>3,712,184</u> |
| | |
| Total liabilities | <u>4,294,707</u> |
| | |
| COMMITMENTS AND CONTINGENCIES: | |
| | - |
| | |
| MEMBERS' DEFICIT: | |
| Capital stock of \$25 par value; authorized 40,000 shares with 7,788 issued and outstanding as of December 31, 2009 | 194,700 |
| Donated capital | 1,505 |
| Deficit | <u>(231,860)</u> |
| Total members' deficit | <u>(35,655)</u> |
| | |
| TOTAL LIABILITIES AND MEMBERS' DEFICIT | \$ <u>4,259,052</u> |

The accompanying notes to financial statements are an integral part of these statements.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2009

| | |
|--|---------------------|
| NET SALES | \$ 3,650,513 |
| COST OF GOODS SOLD | <u>2,623,229</u> |
| GROSS PROFIT | <u>1,027,284</u> |
| COSTS AND EXPENSES: | |
| Wages and benefits | 916,368 |
| Facilities costs | 162,779 |
| Equipment costs | 5,579 |
| Insurance | 16,560 |
| Supplies | 101,776 |
| Professional fees | 177,754 |
| Other operating costs | 73,275 |
| Depreciation expense | <u>102,735</u> |
| Total costs and expenses | <u>1,556,826</u> |
| LOSS FROM OPERATIONS | <u>(529,542)</u> |
| OTHER INCOME (EXPENSE): | |
| Interest income | 994 |
| Interest expense | (202,387) |
| Grant income | 470,000 |
| Miscellaneous, net | <u>(29,873)</u> |
| Other income (expense), net | <u>238,734</u> |
| LOSS AVAILABLE FOR PATRONAGE REFUND BEFORE TAXES | <u>(290,808)</u> |
| OTHER EXPENSE (NOT AVAILABLE FOR PATRONAGE REFUND): | |
| Loss on disposal of fixed assets | (358) |
| Involuntary loss | <u>(4,865)</u> |
| Other expense, net | <u>(5,223)</u> |
| LOSS BEFORE PROVISION (BENEFIT) FOR STATE AND FEDERAL INCOME TAXES | <u>(296,031)</u> |
| PROVISION (BENEFIT) FOR STATE AND FEDERAL INCOME TAXES | |
| Current | 7,500 |
| Deferred | <u>(97,165)</u> |
| Provision (benefit) for state and federal income taxes, net | <u>(89,665)</u> |
| NET LOSS | <u>\$ (206,366)</u> |

The accompanying notes to financial statements are an integral part of these statements.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.
STATEMENT OF MEMBERS' DEFICIT
FOR THE YEAR ENDED DECEMBER 31, 2009

| | Capital Stock | Donated Capital | Deficit | Total |
|-------------------------------|------------------|--------------------|--------------|-------------|
| BALANCE, January 1, 2009 | \$ 96,726 | \$ 1,504 | \$ (25,494) | \$ 72,736 |
| Net loss | - | - | (206,366) | (206,366) |
| Shares issued (canceled), net | 97,974 | - | - | 97,974 |
| Donated capital | - | 1 | - | 1 |
| BALANCE, December 31, 2009 | \$ 194,700 | \$ 1,505 | \$ (231,860) | \$ (35,655) |

The accompanying notes to financial statements are an integral part of these statements.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2009

| | |
|---|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Net loss | \$ (206,366) |
| Adjustments to reconcile net loss to net cash used in operating activities: | |
| Depreciation and amortization | 114,601 |
| Loss on disposal of fixed assets | 358 |
| Deferred income taxes | (97,165) |
| Donated capital | 1 |
| Increase in the following asset accounts: | |
| Receivables | (5,033) |
| Inventory | (164,294) |
| Prepaid expenses | (7,956) |
| Increase in the following liability accounts: | |
| Accounts payable | 211,278 |
| Accrued expenses and other current liabilities | 94,743 |
| Income taxes payable | 1,500 |
| Net cash used in operating activities | <u>(58,333)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Purchase of property and equipment | (194,239) |
| Purchase of investments | (11,222) |
| Increase in deposits and other | (6,950) |
| Net cash used in investing activities | <u>(212,411)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | |
| Net proceeds from line of credit | 50,000 |
| Proceeds from long-term debt | 349,107 |
| Financing costs incurred on debt issuance | (72,906) |
| Principal payments on long-term debt | (97,841) |
| Net proceeds from issuance of capital stock and partial shares | 97,974 |
| Net cash provided by financing activities | <u>326,334</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 55,590 |
| CASH AND CASH EQUIVALENTS, beginning of year | <u>45,003</u> |
| CASH AND CASH EQUIVALENTS, end of year | <u>\$ 100,593</u> |

SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING TRANSACTIONS

During the year, the Cooperative purchased property and equipment in exchange for a note payable in the amount of \$1,618,108.

During the year, the Cooperative received inventory in exchange for a note payable for \$125,000.

The accompanying notes to financial statements are an integral part of these statements.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Business – The Littleton Consumer Cooperative Society, Inc. (the Cooperative) was incorporated in New Hampshire in 2006. The Cooperative, located in Littleton, NH, operates a member owned food store, open to its members and the general public.

Summary of Significant Accounting Policies:

The financial statements of the Cooperative are prepared using the accrual basis of accounting. The accounting and reporting policies of the Cooperative conform to accounting principles generally accepted in the United States of America. In order to facilitate a more complete understanding of the data included in the financial statements, the more significant of these accounting policies are summarized below:

Cash and Cash Equivalents – The Cooperative considers as cash and cash equivalents all highly liquid investments with a maturity of three months or less at the date of purchase and proceeds due from credit and debit card transactions with settlement terms of less than five days.

Concentration of Credit Risk – The Cooperative maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. Cash is maintained at high-quality financial institutions, and the Cooperative has not experienced any losses in such accounts and believes it is not exposed to any significant risk on cash.

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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments in Other Cooperatives – The Cooperative accounts for its investments in other cooperatives under the cost method of accounting.

Inventory – The Cooperative uses a combination of the retail inventory method ("RIM") and replacement cost method ("RCM") to determine the current cost of its inventory. Under RIM, the current cost of inventories and the gross margins are calculated by applying a cost-to-retail ratio to the current retail value of inventories. Under the RCM, the most current unit purchase cost is used to calculate the current cost of inventories.

Property and Equipment – The cost of property and equipment is depreciated over the estimated useful lives of the related assets using various straight-line and accelerated methods. Expenditures for repairs and maintenance are expensed when incurred and betterments are capitalized. When assets are no longer in service, the related costs and reserves are removed. Property and equipment is recorded at cost less accumulated depreciation. The ranges of estimated useful lives are as follows:

| | <u>YEARS</u> |
|-------------------------|--------------|
| Furniture and equipment | 5 – 10 |
| Land improvements | 15 – 39 |
| Building | 39 |

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

1. **NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**
(continued):

Income Taxes – Deferred taxes are provided based on a liability method whereby deferred tax assets and liabilities are recognized for deductible temporary differences. Temporary differences are the differences between the financial and tax-reporting basis for specific items. Deferred taxes are recorded at the enacted tax rates. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. No allowance was required for December 31, 2009.

Revenue Recognition – Revenue is recognized at the point of sale for retail sales. Customer returns are immaterial. Sales discounts are recorded as a reduction of sales at the time of purchase.

Receivables – The carrying value of accounts receivable approximates fair value due to their short-term nature. Management determines the allowance for doubtful accounts based on historical experience and application of the specific identification method. There was no allowance for doubtful accounts as of December 31, 2009.

Advertising – Advertising costs are charged to operations when incurred. Advertising costs were \$26,660 for the year ended December 31, 2009.

Business Reporting Segments – The Cooperative has determined that its operations are within one reportable segment. Accordingly, financial information on industry segments is omitted because, apart from the principal business of operating a retail store, the Cooperative has no other industry segments.

Fair Value of Financial Instruments – The Cooperative's financial instruments consist of cash, short-term trade receivables and payables, accrued expenses and long-term debt. The carrying value of all instruments approximates their fair value.

Impairment of Long-Lived Assets – The Cooperative periodically assesses the likelihood of recovering the cost of long-lived assets based on its expectations of future profitability and undiscounted cash flows of the related business operations. These factors, along with management's plans with respect to the operations, are considered in assessing the recoverability of property and equipment.

2. **PROPERTY AND EQUIPMENT:**

Property and equipment consisted of the following as of December 31, 2009:

| | |
|--------------------------------|---------------------|
| Land | \$ 778,131 |
| Buildings and improvements | 2,127,533 |
| Equipment | <u>872,896</u> |
| | 3,778,560 |
| LESS: accumulated depreciation | <u>(102,735)</u> |
| Property and equipment, net | \$ <u>3,675,825</u> |

Depreciation expense for the year ended December 31, 2009 amounted to \$102,735.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

3. INVESTMENTS IN OTHER COOPERATIVES:

Investments are recorded at cost or net realizable value and consisted of the following as of December 31, 2009:

| | |
|---|------------------|
| Associated Grocers of New England, Inc. | |
| 1 share of Class A stock | \$ 5,000 |
| Class B stock investment | <u>6,222</u> |
| | \$ <u>11,222</u> |

The Cooperative holds shares of Associated Grocers (AG) Class B stock. This stock is not publicly traded and carries restricted conditions under which it may be transferred. The amount of Class B stock required to be owned by each member is dependent on annual purchases from AG and is charged weekly as ½ of 1% of sales until the obligation is met. AG allocates its earnings to its members 50% in cash and the remaining 50% in a certificate of indebtedness and patronage shares.

4. OTHER ASSETS:

Included in other assets at December 31, 2009 is \$77,319 in financing costs associated with the construction loan and equipment loans. The costs are amortized over the lives of the loans. Amortization expense was \$11,866 for the year ended December 31, 2009.

5. LINE OF CREDIT:

The Cooperative has a line of credit of \$150,000. The line of credit is through the Cooperative Fund of New England, Inc. (CFNE), carries an interest rate of 7.5% and is due on demand. The line expires November 18, 2012. At December 31, 2009, there was \$50,000 outstanding on the line of credit, leaving \$100,000 of availability. The line of credit is guaranteed by the Hanover Consumer Cooperative Society, Inc (see Note 13).

6. MEMBER LOANS:

The Cooperative helped fund a building project by entering into loan agreements with members, totaling \$483,500 at December 31, 2009. The loans vary in amounts ranging from \$1,000 to \$50,000 and bear interest at 4% for loans under \$10,000 and 5% for loans over that amount. No payments are required on the loans until 2012, when principal and accrued interest will be paid in three annual installments. Accordingly, member loans are shown on the accompanying balance sheet as long term.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

7. LONG-TERM DEBT:

Long-term debt consisted of the following as of December 31, 2009:

| | |
|---|---------------------|
| 7% mortgage payable, secured by assets and guaranteed by the State of NH, in monthly installments of \$18,608 principal and interest, with a balloon payment at October 18, 2014. | \$ 2,385,980 |
| 7.5% note payable, secured by equipment and guaranteed by the State of NH, in monthly installments of \$7,594 in principal and interest, with a balloon payment at July 14, 2014. | 466,969 |
| 8% note payable, secured by land, no payments until September 1, 2011, monthly installments then of \$860 principal and interest, with a balloon payment at September 1, 2014. | 90,000 |
| 8% note payable, interest only through September 2009 then monthly installments of \$836 principal and interest, with a balloon payment at September 18, 2013. | 99,487 |
| 7% note payable, in monthly installments of \$581 principal and interest, with a balloon payment at September 1, 2019. | 74,562 |
| 8% note payable, in monthly installments of \$1,520 principal and interest, due September 14, 2014. | 71,914 |
| 8% note payable, in monthly installments of \$418 principal and interest, with a balloon payment at September 14, 2014. | 49,741 |
| 8.25% note payable, secured by equipment, in monthly installments of \$1,963 principal and interest, due June 15, 2016. | 118,274 |
| 6.5% note payable with AG, secured by inventory, weekly installments of \$1,282 principal and interest, due April 2011. | <u>84,732</u> |
| | 3,441,659 |
| LESS: Current portion | <u>212,975</u> |
| | \$ <u>3,228,684</u> |

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

7. LONG-TERM DEBT (continued):

Future minimum payments on long-term debt at December 31, 2009 were as follows:

| <u>Years</u> | |
|--|---------------------|
| 2010 (included in current liabilities) | \$ 212,975 |
| 2011 | 181,314 |
| 2012 | 175,554 |
| 2013 | 189,097 |
| 2014 | 2,498,713 |
| Thereafter | <u>184,006</u> |
| | \$ <u>3,441,659</u> |

As of the date of this report, some new arrangements have been made to suspend principal payments in 2010 (see footnote 14).

8. DEFERRED TAXES:

The Cooperative's method of accounting for income taxes conforms to the requirements of Accounting Standards Codification Topic 740, *Accounting for Income Taxes*.

Components of deferred taxes are as follows:

| | <u>2009</u> |
|---|-------------------|
| Current deferred tax liability | |
| Liability arising from temporary differences related to accrued vacation | \$ <u>(3,274)</u> |
| Total current deferred tax liability | \$ <u>(3,274)</u> |
| Non-current deferred tax benefit | |
| Liability arising from temporary differences relating to depreciation | \$ (11,056) |
| Benefit arising from net operating loss carry forward | <u>111,495</u> |
| Total non-current deferred tax benefit | \$ <u>100,439</u> |

9. PATRONAGE REFUNDS:

According to the Cooperative's bylaws, the patronage refund rate cannot exceed the rate of net earnings before provision for income taxes, expressed as a percent of total sales. In addition, the Cooperative may retain 5% of earnings to be allocated to an education reserve. During 2009, there were no net earnings to distribute through patronage refunds

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

10. CASH FLOW INFORMATION:

Cash paid for interest and income taxes was as follows for the year ended December 31, 2009:

| | |
|--------------|-------------------|
| Interest | \$ <u>231,917</u> |
| Income taxes | \$ <u>6,000</u> |

11. MEMBERS' EQUITY:

Capital Stock -- Capital stock of the Cooperative is restricted in transferability. It is redeemable with the Cooperative at par value. A member must own a minimum of 4 shares in order to become a voting member. Anyone owning less than 4 shares is deemed a subscriber, and still has rights to patronage refunds.

12. COMMITMENTS AND CONTINGENCIES:

Litigation -- The Cooperative is involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Cooperative's future financial position or results from operations.

13. RELATED PARTY:

The Cooperative owns shares of AG (See Note 3). During the year ended December 31, 2009, the Cooperative purchased \$1,236,059 of goods and groceries from AG, which represents 42% of the Cooperatives total purchases for the year. The Cooperative recorded a liability to AG of \$29,482 as of December 31, 2009.

The Cooperative has an agreement with the Hanover Consumer Cooperative Society, Inc. whereby in the event of default by the Cooperative on the line of credit, the Hanover Consumer Cooperative Society, Inc. would purchase sellable inventory from CFNE at 50% of invoice price up to \$150,000. During the year ended December 31, 2009, the Cooperative received consulting services from Hanover Consumer Cooperative Society, Inc. in the amount of \$102,188, of which \$33,628 was remaining as a payable at year end. Subsequent to year end, Hanover Consumer Cooperative Society, Inc. forgave \$10,000 of this payable (see Note 14).

14. SUBSEQUENT EVENTS:

These statements have been prepared in accordance with Accounting Standards Codification Topic 855, *Subsequent Events*. Topic 855 requires the Cooperative to recognize the effect of the events that occur after the balance sheet date, December 31, 2009, but before the financial statements are available to be issued only if they provide additional evidence about a condition that existed as of December 31, 2009. In addition, Topic 855 requires disclosure consideration of significant subsequent events related to conditions that did not exist as of the balance sheet date but in effect make the financial statements misleading if not disclosed to the user. Topic 855 requires the Cooperative to disclose the date at which the financial statements were issued or were made available for issue (March 18, 2010) and how the date was determined.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009

14. SUBSEQUENT EVENTS (continued):

The Cooperative has reviewed events occurring after December 31, 2009 through March 18, 2010, the date that management accepted the final draft of the financial statements and made them available to be issued. The Cooperative has not reviewed events occurring after the report date for their potential impact on the information contained in these financial statements.

Subsequent to the year ended December 31, 2009, the Cooperative entered into agreements on seven of its outstanding notes to suspend principal payments for a period of six months, beginning March 2010. This reprieve amounts to \$75,648, which is included in current liabilities at December 31, 2009. The Cooperative is also in the process of negotiating with another debt holder for a lower payment, but nothing had been finalized as of this report date. The Cooperative has also been informed that one of their loans was improperly amortized by the debt holder, resulting in larger than necessary payments. The final impact on the future required payments had not been determined by the date of this report. Finally, the Cooperative has been granted a forgiveness of a portion of a payable to a related party (see Note 13).

15. RECENT ACCOUNTING PRONOUNCEMENTS:

In June 2009, the FASB issued Accounting Standards Codification Topic 105 (formerly SFAS No. 168), *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162*. Topic 105 supersedes all existing non-SEC accounting and reporting standards and became the source of U.S. generally accepted accounting principles. Following Topic 105, the Board will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates. Topic 105 is effective for financial statements issued for fiscal years ending after September 15, 2009.

The Cooperative adopted the provisions of Accounting Standards Codification Subtopic 740-10 (formerly FASB Interpretation No. 48), *Accounting for Uncertainty in Income Taxes*, effective January 1, 2009. Subtopic 740-10 applies to all tax positions accounted for under FASB Statement No. 109, *Accounting for Income Taxes*. Subtopic 740-10 applies to situations where the uncertainty is to the timing of the deduction, the amount of the deduction or the validity of the deduction. At adoption, the Cooperative was required to adjust their financial statements to reflect only those tax positions that are more likely than not to be sustained as of the adoption date. Positions that meet this criterion should be measured using the largest benefit that is more than 50% likely to be realized. The necessary adjustment should be recorded directly to the beginning balance of retained earnings in the period of adoption and reported as a change in accounting principle. At adoption and at December 31, 2009, the Cooperative did not have any unrecognized tax benefits, nor any accrued interest or penalties related to unrecognized tax benefits.