

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

FOR THE YEARS ENDED
DECEMBER 31, 2011 AND 2010

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Littleton Consumer Cooperative Society, Inc. as of December 31, 2011 and 2010, and the related statements of operations, members' deficit and cash flows for the years 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 audits.

We conducted our audits 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 audits provide 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, 2011 and 2010, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Tyler, Semms and St. Severeur, CPAs, P.C.

Lebanon, New Hampshire
April 2, 2012

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.
BALANCE SHEETS
DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 129,509	\$ 97,656
Receivables	4,104	4,083
Inventory	356,421	314,072
Prepaid expenses	17,457	25,203
Current deferred income tax asset	1,273	-
Total current assets	<u>508,764</u>	<u>441,014</u>
PROPERTY AND EQUIPMENT, at cost	3,793,329	3,778,624
Less: Accumulated depreciation	<u>(469,245)</u>	<u>(285,609)</u>
Property and equipment, net	<u>3,324,084</u>	<u>3,493,015</u>
OTHER ASSETS:		
Investments in other cooperatives	85,408	44,658
Financing costs, net	-	48,939
Deferred income tax asset	21,150	12,437
Total other assets	<u>106,558</u>	<u>106,034</u>
TOTAL ASSETS	<u>\$ 3,939,406</u>	<u>\$ 4,040,063</u>
<u>LIABILITIES AND MEMBERS' DEFICIT</u>		
CURRENT LIABILITIES:		
Line of credit	\$ 86,000	\$ 88,000
Accounts payable	171,503	172,938
Accrued expenses and other current liabilities	164,265	150,981
Income taxes payable	161	2,500
Current deferred income tax liability	-	1,347
Current portion of long-term debt	<u>101,142</u>	<u>144,308</u>
Total current liabilities	<u>523,071</u>	<u>560,074</u>
LONG-TERM LIABILITIES:		
Long-term debt, excluding current portion	3,149,293	3,239,196
Member loans	<u>483,500</u>	<u>483,500</u>
Total long-term liabilities	<u>3,632,793</u>	<u>3,722,696</u>
Total liabilities	<u>4,155,864</u>	<u>4,282,770</u>
COMMITMENTS AND CONTINGENCIES (see footnote 13)	-	-
MEMBERS' DEFICIT:		
Capital stock of \$25 par value; authorized 40,000 shares with 9,481 and 8,825 issued and outstanding as of December 31, 2011 and 2010, respectively	237,025	220,625
Donated capital	1,505	1,505
Reserve fund	8,316	-
Deficit	<u>(463,304)</u>	<u>(464,837)</u>
Total members' deficit	<u>(216,458)</u>	<u>(242,707)</u>
TOTAL LIABILITIES AND MEMBERS' DEFICIT	<u>\$ 3,939,406</u>	<u>\$ 4,040,063</u>

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

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
NET SALES	\$ 7,329,754	\$ 6,779,534
COST OF GOODS SOLD	<u>4,986,650</u>	<u>4,657,725</u>
GROSS PROFIT	<u>2,343,104</u>	<u>2,121,809</u>
COSTS AND EXPENSES:		
Wages and benefits	1,280,030	1,280,821
Facilities costs	254,570	223,307
Equipment costs	1,465	2,806
Insurance	15,026	5,526
Supplies	109,180	99,717
Professional fees	46,409	64,371
Other operating costs	133,382	108,009
Depreciation expense	<u>183,637</u>	<u>183,089</u>
Total costs and expenses	<u>2,023,699</u>	<u>1,967,646</u>
INCOME FROM OPERATIONS	<u>319,405</u>	<u>154,163</u>
OTHER INCOME (EXPENSE):		
Interest income	63	64
Interest expense	(259,813)	(273,897)
Amortization expense	(48,939)	(12,801)
Miscellaneous, net	<u>(2,400)</u>	<u>(3,321)</u>
Other income (expense), net	<u>(311,089)</u>	<u>(289,955)</u>
INCOME (LOSS) AVAILABLE FOR PATRONAGE REFUND BEFORE TAXES	<u>8,316</u>	<u>(135,792)</u>
OTHER EXPENSE (NOT AVAILABLE FOR PATRONAGE REFUND):		
Loss on disposal of fixed assets	<u>-</u>	<u>(1,236)</u>
Other expense, net	<u>-</u>	<u>(1,236)</u>
INCOME (LOSS) BEFORE PROVISION (BENEFIT) FOR STATE AND FEDERAL INCOME TAXES	<u>8,316</u>	<u>(137,028)</u>
PROVISION (BENEFIT) FOR STATE AND FEDERAL INCOME TAXES:		
Current	9,800	9,874
Deferred	<u>(11,333)</u>	<u>86,075</u>
Provision (benefit) for state and federal income taxes, net	<u>(1,533)</u>	<u>95,949</u>
NET INCOME (LOSS)	<u>\$ 9,849</u>	<u>\$ (232,977)</u>

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

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.
STATEMENTS OF MEMBERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>Capital Stock</u>	<u>Donated Capital</u>	<u>Reserve Fund</u>	<u>Deficit</u>	<u>Total</u>
BALANCE, January 1, 2010	\$ 194,700	\$ 1,505	\$ -	\$ (231,860)	\$ (35,655)
Net loss	-	-	-	(232,977)	(232,977)
Shares issued (canceled), net	<u>25,925</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,925</u>
BALANCE, December 31, 2010	220,625	1,505	-	(464,837)	(242,707)
Net income	-	-	-	9,849	9,849
Allocated reserve			8,316	(8,316)	-
Shares issued (canceled), net	<u>16,400</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,400</u>
BALANCE, December 31, 2011	<u>\$ 237,025</u>	<u>\$ 1,505</u>	<u>\$ 8,316</u>	<u>\$ (463,304)</u>	<u>\$ (216,458)</u>

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

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 9,849	\$ (232,977)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	183,637	183,089
Amortization	48,939	12,801
Loss on disposal of fixed assets	-	1,236
Deferred income taxes	(11,333)	86,075
(Increase) decrease in the following asset accounts:		
Receivables	(21)	950
Inventory	(42,349)	(24,778)
Prepaid expenses	7,746	(17,247)
Increase (decrease) in the following liability accounts:		
Accounts payable	(1,435)	1,764
Accrued expenses and other current liabilities	13,284	47,485
Income taxes payable	(2,339)	1,000
Net cash provided by operating activities	<u>205,978</u>	<u>59,398</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of equipment	-	50
Purchase of property and equipment	(324)	(1,565)
Purchase of investments	(40,750)	(33,436)
Decrease in deposits and other	-	6,950
Net cash used in investing activities	<u>(41,074)</u>	<u>(28,001)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from (payments on) line of credit	(2,000)	38,000
Principal payments on long-term debt	(147,451)	(98,259)
Net proceeds from issuance of capital stock and partial shares	16,400	25,925
Net cash used in financing activities	<u>(133,051)</u>	<u>(34,334)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	31,853	(2,937)
CASH AND CASH EQUIVALENTS, beginning of year	<u>97,656</u>	<u>100,593</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 129,509</u>	<u>\$ 97,656</u>

SUPPLEMENTAL DISCLOSURES OF NON-CASH TRANSACTIONS

During 2010, a payable to a related party was converted to a note payable (see Note 14).

During 2011, the Cooperative purchased property and equipment in exchange for a note payable in the amount of \$14,382.

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

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

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 the 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, 2011 AND 2010

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.

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, 2011 or 2010.

Advertising – Advertising costs are charged to operations when incurred. Advertising costs were \$24,330 and \$23,161 for the years ended December 31, 2011 and 2010, respectively.

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 fair value of the Cooperative's financial instruments include cash, short-term trade receivables and accounts payables approximate their respective carrying amounts due to their short-term maturity.

Cost of Goods Sold – Cost of goods sold includes cost of inventory and costs related to in-store production. Cost of merchandise also includes inbound freight charges and purchasing and receiving costs.

Vendor allowances and credits, including cooperative advertising allowances, received from a vendor in connection with the purchase or promotion of the vendors products are recognized as a reduction of cost of goods sold as earned. These allowances and credits are recognized as earned in accordance with the underlying agreement with the vendor and completion of the earnings process.

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 long lived assets including building improvements and furniture and equipment are evaluated for impairment at the supermarket level.

Reclassifications – Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

2. PROPERTY AND EQUIPMENT:

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

	<u>2011</u>	<u>2010</u>
Land	\$ 778,131	\$ 778,131
Buildings and improvements	2,127,533	2,127,533
Furniture and equipment	<u>887,665</u>	<u>872,960</u>
	3,793,329	3,778,624
LESS: accumulated depreciation	<u>(469,245)</u>	<u>(285,609)</u>
Property and equipment, net	\$ <u><u>3,324,084</u></u>	\$ <u><u>3,493,015</u></u>

3. INVESTMENTS IN OTHER COOPERATIVES:

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

	<u>2011</u>	<u>2010</u>
Associated Grocers of New England, Inc.		
1 share of Class A stock	\$ 5,000	\$ 5,000
Class B stock investment	<u>80,408</u>	<u>39,658</u>
	\$ <u><u>85,408</u></u>	\$ <u><u>44,658</u></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 in cash and patronage shares.

4. OTHER ASSETS:

Included in other assets at December 31, 2011 and 2010 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 \$48,939 and \$12,801 for the years ended December 31, 2011 and 2010, respectively.

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, 2011 and 2010, there was \$86,000 and \$88,000, respectively, outstanding on the line of credit. The line of credit is guaranteed by the Hanover Consumer Cooperative Society, Inc. (see Note 14).

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

6. MEMBER LOANS:

The Cooperative helped fund a building project by entering into loan agreements with members, totaling \$483,500 at December 31, 2011 and 2010. 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.

7. LONG-TERM DEBT:

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

	<u>2011</u>	<u>2010</u>
7% mortgage payable, secured by assets and guaranteed by the State of NH, in monthly installments of \$18,608, interest only allowed March through August 2010, and six payments of \$16,500 principal and interest beginning November 2010, returning to original payments of \$18,608, with a balloon payment at September 8, 2014.	\$ 2,310,487	\$ 2,361,464
7.5% note payable, secured by equipment and guaranteed by the State of NH, in monthly installments of \$7,594, interest only allowed March through August 2010, and six payments of \$5,500 beginning November 2010, returning to original payments of \$7,594 principal and interest, with a balloon payment at June 2014.	391,764	442,824
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.	88,949	90,000
8% note payable, interest only through March 2009 then monthly installments of \$836 principal and interest, interest only payments allowed March 2010 through April 2011, then resuming regular payments with a balloon payment at September 18, 2014.	97,126	99,139
7% note payable, in monthly installments of \$581 principal and interest, interest only payments allowed March through August 2010 and November 2010 through April 2011, then resuming regular payments with a balloon payment at September 1, 2019.	72,777	73,990

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

7. LONG-TERM DEBT (continued):

	<u>2011</u>	<u>2010</u>
8% note payable, in monthly installments of \$1,520 principal and interest, interest only payments allowed March 2010 through April 2011, reduced payments of \$584 principal and interest starting May 2011, due September 14, 2014.	68,881	69,858
8% note payable, in monthly installments of \$418 principal and interest, interest only payments allowed March through August 2010 and November 2010 through April 2011, then resuming regular payments with a balloon payment at September 1, 2014.	48,686	49,406
8.25% note payable, secured by equipment, in monthly installments of \$1,963 principal and interest, interest only payments allowed March 2010 through April 2011, reduced payments of \$1,823 principal and interest starting May 2011, due June 15, 2016.	107,782	116,022
6.5% note payable with AG, secured by inventory, weekly installments of \$1,282 principal and interest, payments reduced to \$372 weekly principal and interest, extended through August 2013.	31,021	48,124
6.5% note payable with AG, secured by inventory, weekly installments of \$66 principal and interest for 104 weeks, through December 2013.	6,255	-
1.0% note payable with AG, secured by inventory, weekly installments of \$77 principal and interest for 104 weeks, through August 2013.	6,284	-
Non-interest bearing note with a related party (see Note 14), monthly installments of \$1,021, due August 2013.	<u>20,423</u>	<u>32,677</u>
	3,250,435	3,383,504
LESS: Current portion	<u>101,142</u>	<u>144,308</u>
Long-term debt, excluding current portion	\$ <u>3,149,293</u>	\$ <u>3,239,196</u>

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

7. LONG-TERM DEBT (continued):

Future minimum payments on long-term debt at December 31, 2011 were as follows:

<u>Years</u>	
2012 (included in current liabilities)	\$ 101,142
2013	189,176
2014	2,574,192
2015	104,654
2016	52,177
Thereafter	<u>229,094</u>
	\$ <u>3,250,435</u>

On February 29, 2012, the Cooperative entered into financing agreements with Woodsville Guaranty Savings Bank, Small Business Administration (SBA) and Grafton County Economic Development Council (GCEDC) for the purpose of refinancing existing debt. The new notes payable are as follows:

- \$1,650,000 note payable to Woodsville Guaranty Bank. Monthly payments of \$10,439, including interest at a fixed rate of 4.5% for the first five years and then a variable rate of 1.5% over Wall Street Journal prime, secured by certain assets of the Cooperative, matures February 2032.
- \$1,365,000 note payable to Woodsville Guaranty Bank as interim financing to be replaced by a note payable with the SBA in May 2012. Interest only payments at a fixed rate of 4.5%. Terms of the SBA loan had not been finalized as of the date of this report.
- \$125,000 and \$80,000 notes payable to GCEDC. Monthly payments \$2,475 and \$1,584, respectively. Including interest at a fixed rate of 7%, secured by certain assets of the Cooperative, matures April 2017.

Pursuant to Accounting Standards Codification Paragraph 470-10-45-13, *Short-Term Obligations Expected to be Refinanced*, current debt obligations as of December 31, 2011 have been classified in the long-term liability section of the accompanying Statements of Financial Position. The amount reflected as current portion of long-term debt represents principal due on notes payable as if the refinancing had occurred prior to December 31, 2011.

8. RETIREMENT PLAN:

During 2010, the Cooperative began a sponsored SIMPLE IRA plan for eligible employees. The Cooperative matches up to 3% of employees' wages based on employee contribution. Retirement plan expense was \$17,585 and \$13,996 for the years ended December 31, 2011 and 2010, respectively.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

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 2011 and 2010, there were no net earnings to distribute through patronage refunds.

10. 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>2011</u>	<u>2010</u>
Current deferred tax liability		
Liability arising from temporary differences related to accrued vacation	\$ <u>1,273</u>	\$ <u>(1,347)</u>
Total current deferred tax liability	\$ <u>1,273</u>	\$ <u>(1,347)</u>
Non-current deferred tax benefit		
Liability arising from temporary differences relating to depreciation	\$ (30,676)	\$ (18,412)
Benefit arising from net operating loss carry-forward	78,963	68,349
Less: Valuation allowance	<u>(27,137)</u>	<u>(37,500)</u>
Total non-current deferred tax benefit	\$ <u>21,150</u>	\$ <u>12,437</u>

Net Operating Loss Carryforward – As of December 31, 2011, the Cooperative has a net operating loss carryforward of \$580,568. The net operating loss, if unused, will begin to expire in the year 2027.

11. CASH FLOW INFORMATION:

Cash paid for interest and income taxes was as follows for the years ended December 31:

	<u>2011</u>	<u>2010</u>
Interest	\$ <u>245,211</u>	\$ <u>273,897</u>
Income taxes	\$ <u>9,800</u>	\$ <u>9,874</u>

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

12. 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.

Reserve Fund – The Cooperative's governing documents allow for a reserve fund to be established and maintained on an annual basis for the general conduct of the Cooperative's business and for its overall sustainability. The Board of Directors voted to allocate \$8,316 of the current year earnings to the Reserve Fund for the year ended December 31, 2011.

13. COMMITMENTS AND CONTINGENCIES:

Operating Lease – The Cooperative leases office space under an operating lease. The lease covers various periods of time and includes provisions for payment of various expenses associated with the properties. The current lease expires on March 31, 2012

The operating lease requires future minimum payments as of December 31 as follows:

2012	\$ <u>1,787</u>
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14. RELATED PARTY:

The Cooperative owns shares of AG (See Note 3). During the years ended December 31, 2011 and 2010, the Cooperative purchased \$2,268,329 and \$2,050,691, respectively, of goods and groceries from AG, which represents 46% and 44%, respectively, of the Cooperative's total purchases for the year. The Cooperative recorded a liability to AG of \$38,283 and \$37,777 as of December 31, 2011 and 2010, respectively.

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. During the year ended December 31, 2010, the payable was converted to a non-interest bearing note, payable over 36 months. The balance of this note at December 31, 2011 was \$20,423.

15. SUBSEQUENT EVENTS:

The Cooperative has evaluated subsequent events for potential recognition and/or disclosure through April 2, 2012, the date the financial statements were available to be issued, noting the following events:

On February 29, 2012, the Cooperative entered into financing agreements for the purpose of refinancing (see Note 7).