A.M. PEISCH & COMPANY, LLP

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LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.
FINANCIAL STATEMENTS
DECEMBER 29, 2012

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Littleton Consumer Cooperative Society, Inc. (a New Hampshire Cooperative), which comprise the balance sheet as of December 29, 2012 and the related statement of operations, members' deficit, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 29, 2012, and the results of its operations and its cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

A.M. Peisch and Company, LLP

St. Johnsbury, Vermont
March 29, 2013
VT Reg. No. 92-0000102

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.
BALANCE SHEET
DECEMBER 29, 2012

ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$	239,000
Receivables		7,941
Inventory		380,626
Prepaid expenses		12,729
Deferred income taxes		5,413
Total current assets		645,709
PROPERTY, PLANT AND EQUIPMENT, net		3,141,250
OTHER ASSETS		
Investments in other cooperatives		129,160
Financing costs, net		59,122
Deferred income taxes		51,950
Total other assets		240,232
TOTAL ASSETS	$	4,027,191
LIABILITIES AND MEMBERS' EQUITY		
CURRENT LIABILITIES:		
Line of credit	$	26,000
Accounts payable		191,031
Accrued expenses and other liabilities		188,556
Income taxes payable		161
Current portion of long-term debt		336,622
Total current liabilities		742,370
LONG-TERM LIABILITIES		
Long-term debt, excluding current portion		2,958,679
Member loans		322,333
Total long-term liabilities		3,281,012
TOTAL LIABILITIES		4,023,382
MEMBER'S EQUITY		
Capital stock: $25 par value; authorized 40,000 shares; 10,101 issued and outstanding as of December 29, 2012.		252,525
Donated capital		1,505
Reserve Fund		213,083
Accumulated deficit		(463,304)
Total members' equity		3,809
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	4,027,191

See accompanying notes.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 29, 2012

NET SALES	$ 8,000,446
COST OF SALES	5,493,133
GROSS PROFIT	2,507,313
OPERATING EXPENSES	
Wages and benefits	1,417,564
Facilities costs	257,638
Equipment costs	5,300
Insurance	12,612
Supplies	118,554
Professional fees	70,844
Other operating costs	129,863
Depreciation expense	185,399
Total operating expenses	2,197,774
INCOME FROM OPERATIONS	309,539
OTHER INCOME (EXPENSE)	
Interest income	205
Patronage income	39,637
Interest expense	(165,721)
Amortization expense	(3,011)
Gain on sale of fixed assets	900
Miscellaneous, net	(1,993)
Other income (expense), net	(129,983)
INCOME BEFORE PROVISION (BENEFIT) FOR INCOME TAXES	179,556
PROVISION (BENEFIT) FOR INCOME TAXES	(25,211)
NET INCOME	$ 204,767

See accompanying notes.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.
STATEMENT OF MEMBER'S EQUITY
FOR THE YEAR ENDED DECEMBER 29, 2012

	Capital Stock	Donated Capital	Reserve Fund	Accumulated Deficit	Total
Balance, January 1, 2011	$ 237,025	$ 1,505	$ 8,316	$ (463,304)	$ (216,458)
Net income	-	-	-	204,767	204,767
Allocated reserve	-	-	204,767	(204,767)	-
Shares issued (canceled), net	15,500	-	-	-	15,500
Balance, December 29, 2012	$ 252,525	$ 1,505	$ 213,083	$ (463,304)	$ 3,809

See accompanying notes.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 29, 2012

CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$	204,767
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation		185,399
Amortization		3,011
Gain on sale of fixed assets		(900)
Deferred income taxes		(34,940)
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Receivables		(3,837)
Inventory		(24,205)
Prepaid expenses		4,728
Increase (decrease) in liabilities:		
Accounts payable		19,530
Accrued expenses and other current liabilities		24,290
Net cash provided by operating activities		377,843
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales of equipment		1,500
Purchases of property, plant, and equipment		(3,167)
Purchase of investments		(43,752)
Net cash used by investing activities		(45,419)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from (payments on) line of credit, net		(60,000)
Principal payments on long-term debt		(178,434)
Net proceeds from issuance of capital stock and partial shares		15,500
Net cash used by financing activities		(222,934)
Net increase in cash and cash equivalents		109,490
Cash and cash equivalents at beginning of year		129,510
Cash and cash equivalents at end of year	$	239,000
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Interest paid	$	132,769
Income taxes paid	$	9,729

See accompanying notes.

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

Background

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.

Following is a summary of the Cooperative's significant accounting polices used in the preparation of these financial statements.

Basis of presentation

The financial statements of the Cooperative are prepared using the accrual basis of accounting. The Cooperative adopted a 52/53 week fiscal year in 2012. The Cooperative's year ends on the Saturday nearest to December 31. The accounting and reporting policies of the Cooperative conform to accounting principles generally accepted in the United States of America.

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.

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.

Cash and cash equivalents

For the purposes of the statement of cash flows, the Cooperative considers cash and cash equivalents as 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.

Receivables

The carrying value of accounts receivable is stated at the amount management expects to collect. 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 29, 2012.

Note 1. Summary of Significant Accounting Policies (Continued)

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 expenses are expensed when incurred, and betterments are capitalized. When assets are no longer in service, the related costs and accumulated depreciation are removed. Property and equipment is recorded at cost less accumulated depreciation. The ranges of estimated useful lives are as follows:

Land improvements	15 – 39 years
Building and improvements	5 – 39 years
Furniture and equipment	5 – 10 years

Investments in other cooperatives

Nonmarketable investments in cooperative associations are carried at cost and are evaluated for impairment annually to adjust the investments to their net realizable value. During 2012, no impairment loss was required to be recognized.

Financing costs

Financing costs related to the acquisition of loans are capitalized and amortized on a straight-line basis over the life of the loan.

Income taxes

FASB ASC 740-10 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return, and provides guidance for derecognition, classification, interest and penalties, disclosure, and transition. The Cooperative is not aware of any such uncertain tax position.

Based on management's evaluation, management has concluded that there were no significant uncertain tax positions requiring recognition in the Cooperative's financial statements as of December 29, 2012. Although the Cooperative is not currently the subject of tax examination by the Internal Revenue Service (IRS), the Cooperative's tax years for 2009 through 2012 are open to examination by the IRS under the applicable statute of limitations.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

Advertising

Advertising costs are charged to operations when incurred. Advertising costs were $34,973 for the year ended December 29, 2012.

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 includes cash, receivables, and accounts payable which approximates 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 vendor's 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.

Accounting pronouncements

The FASB issued "ASU" 2011-05 *Presentation of Comprehensive Income*. The standard requires that comprehensive income be presented in either a single continuous statement of comprehensive income or in two separate but consecutive statements. The standard is effective for years ending after December 15, 2012. Adoption of this standard did not have a significant effect on the financial statements.

Note 2. Concentration of Credit Risk

The Cooperative maintains bank account balances which, at times, may exceed Federally insured limits. The Cooperative has not experienced any losses with these accounts, and management believes the Cooperative is not exposed to significant credit risk on cash as of December 29, 2012.

Note 3. Property and Equipment

Property and equipment consisted of the following at year-end December 29, 2012:

Land and land improvements	$	778,131
Buildings and improvements		2,127,532
Furniture and equipment		889,331
		3,794,994
Less: accumulated depreciation		(653,744)
Property and equipment, net	$	3,141,250

Note 4. Investments in Other Cooperatives

Investments are recorded at cost or net realizable value and consisted of the following at year-end December 29, 2012:

Neighboring Food Co-Operative Association	$	100
Associated Grocers of New England, Inc.		
Class A stock (1 share)		5,000
Class B stock (602.749 shares)		124,060
	$	129,160

The Cooperative holds shares of Associated Grocers of New England, Inc. (AGNE) 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 AGNE and is charged weekly as ½ of 1% of sales until the obligation is met. AGNE allocates its earnings to its members in cash and patronage shares.

Note 5. Financing Costs

Included in "Other Assets" at December 29, 2012 is $59,122 relative to costs associated with the refinancing and consolidation of construction and equipment loans. These costs are amortized over the lives of the related loans. Amounts capitalized during 2012 for these costs aggregated $62,133.

Note 5. Financing Costs (Continued)

The aggregate amortization expense associated with these costs for the next five years is as follows:

Years		
2013	$	3,614
2014		3,614
2015		3,614
2016		3,614
2017		3,050
Thereafter		41,616
	$	59,122

Amortization expense was $3,011 for the year ended December 29, 2012.

Note 6. Line of Credit

The Cooperative maintains a line of credit of $150,000. The line of credit is through the Cooperative Fund of New England, Inc. (CFNE) and carries a fixed interest rate of 6.0%. Interest is payable monthly with principal due at maturity. The line matures in November 2015. At December 29, 2012, there was $26,000 outstanding on the line of credit.

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.

Note 7. Member Loans

The Cooperative helped fund a building project by entering into loan agreements with members, totaling $483,500 at December 29, 2012. 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. Originally, the first of three annual principal and accrued interest installment payments was scheduled to begin May 2012. The initial payment and repayment period has been extended and is scheduled to begin in May 2013.

The approximate maturity of member loans at December 29, 2012 is as follows:

Years		
2013 (included in current portion)	$	161,167
2014		161,167
2015		161,166
Thereafter		-
	$	483,500

Interest on this borrowing was $22,240 for the year ended December 29, 2012. This amount was accrued and included in “accrued expenses and other liabilities.” Accrued interest will be paid with the installment payments beginning in May 2013.

Note 8. Long-term Debt

As of December 29, 2012, long-term is as follows:

*4.50% note payable, secured by property and equipment, payable in monthly installments of $10,439 principal and interest through February 2032.	$ 1,611,160
2.72% note payable, secured by equipment, payable in monthly installments of $7,324 principal and interest through April 2032; additional annual service fees (see Note 9).	1,320,655
7.00% note payable, secured by property and equipment, payable in monthly installments of $2,475 principal and interest through February 2017.	107,075
7.00% note payable, secured by property and equipment, payable in monthly installments of $1,584 principal and interest through February 2017.	68,528
6.50% note payable with AGNE, secured by inventory, payable in weekly installments of $372 principal and interest through August 2013.	13,104
6.50% note payable with AGNE, secured by equipment, payable in weekly installments of $66 principal and interest for 104 weeks, through December 2013.	3,133
1% note payable with AG, secured by equipment, payable in weekly installments of $77 principal and interest through August 2013.	2,310
Non-Interest Bearing note with a Hanover Cooperative Society, Inc., payable in monthly installments of $1,021 through August 2013.	8,169
	$ 3,134,134
Less: Current portion	175,455
Long-term debt, excluding current portion	$ 2,958,679

*Interest rate at 4.50% for the first five years of the note adjusting to a variable rate of 1.5% over Wall Street Journal Prime thereafter.

Note 8. Long-term Debt (Continued)

As of December 29, 2012, long-term debt matures as follows:

Years		
2013 (included in current liabilities)	$	175,455
2014		150,992
2015		157,994
2016		165,367
2017		131,457
Thereafter		2,352,869
	$	3,134,134

Note 9. Servicing Fees

The Cooperative incurs servicing fees on the outstanding Small Business Administration (SBA) loan at fixed amount equal to 1.83% of the outstanding balance of the note as determined at the beginning of each five year interval of the note. The portion of the monthly loan payments attributable to service fees is $2,065 through February 2017 at which time the fee will be adjusted. There are three separate fees incorporated into each installment including an SBA Guarantee Fee, CSA Fee, and CDC Servicing Fee. A prepayment fee is applicable if the note is paid in full within the first half of the original term. For the year ended December 29, 2012 servicing fees totaled $16,525 and are included in interest expense.

Note 10. Retirement Plan

The Cooperative maintains an employer sponsored SIMPLE IRA plan for eligible employees. The Cooperative matches up to 3% of employees' wages based on employee contribution. Retirement plan expense was $17,282 for the year ended December 29, 2012.

Note 11. Patronage Refunds

According to the Cooperative's by-laws, the patronage refund rate cannot exceed the rate of earnings before provision for income taxes, expressed as a percent of net savings to total sales. In addition, the Cooperative may retain up to 5% of earnings to be allocated to an education reserve and also allocate amounts to the reserve fund at the discretion of the Board of Directors for payment of tax obligations and support general operations of the Cooperative. During 2012, there were no net savings to distribute through patronage refunds.

Note 12. Income Tax

The provision for income taxes for the year ended December 29, 2012 is as follows:

Current tax provision	$	49,921
Deferred tax benefit		(84,861)
Federal tax (benefit)		(34,940)
State Tax (benefit)		9,729
	$	(25,211)

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

The components of deferred taxes for year ended December 29, 2012 are as follows:

		2012
Current deferred tax asset		
Asset arising from temporary differences		
relating to accrued vacation	$	5,413
Total current deferred tax asset	$	5,413
Non-current deferred tax asset		
Liability arising from temporary differences		
relating to depreciation	$	(33,745)
Benefit arising from net operating loss		
carry-forward		85,695
Total non-current deferred tax asset	$	51,950

As of December 29, 2012, the Cooperative has a net operating loss carryforward of $428,477. The net operating loss, if unused, will begin to expire in the year 2027.

Based on the temporary taxable differences, historical taxable income, and estimates of future taxable income, the Cooperative believes that it is more likely than not that the deferred tax assets at December 29, 2012 will be realized and therefore no valuation allowance is warranted.

Net deferred tax assets are included in current assets and other assets in the Balance Sheet at December 29, 2012.

Note 13. 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 four shares in order to become a voting member. Anyone owning less than four 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 $204,767 of the current year earnings to the Reserve Fund for the year ended December 29, 2012.

Note 14. Lease Commitments

The Cooperative leases office space under an operating lease. The initial term was for two years, beginning April 1, 2010 and ending March 31, 2012, with an option to renew the lease for one extended term of two years. The operating lease includes provisions for payment of various expenses associated with the property and a 3% annual rent increase after the initial term.

The operating lease requires future minimum payments as of December 29, 2012 as follows:

2013	$	6,462
2014		1,627
Thereafter		-
	$	8,089

Lease expense was $6,435 for year ended December 29, 2012.

Note 14. Commitments and Contingencies

In 2009, the Cooperative was awarded a Community Development Block Grant (CDBG). One of the conditions of the grant was that a Revolving Loan Fund (RLF) be established and funded from surplus revenues of the Cooperative. The aggregate required funding is $250,000 at which time the agreement would terminate. The maximum required contribution to the RLF can not exceed $15,000 in any one operating cycle. A contribution is required if in the previous year the Cooperatives net positive cash flow from operations, less scheduled debt payments to all creditors exceeds $100,000, and that such payment would not cause the Cooperative to fail to comply with any of its loan covenants. There was no payments made to the RLF in 2012 and none are required in 2013.

Note 15. Related Party

The Cooperative owns shares of AGNE. During the year ended December 29, 2012, the Cooperative purchased $2,585,652 of goods and groceries from AG, which represents 48% of the Cooperative's total purchases for the year. The Cooperative recorded a liability to AG of $46,455 at December 29, 2012.

Note 16. Subsequent Events

In preparing these financial statements, the Cooperative has evaluated events and transactions for potential recognition or disclosure through March 29, 2013, the date the financial statements were available to be issued.