

FINANCIAL STATEMENTS
INDEPENDENT AUDITOR'S REPORT
LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.
JANUARY 2, 2016 AND JANUARY 3, 2015

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

JANUARY 2, 2016 AND JANUARY 3, 2015

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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Littleton Consumer Cooperative Society, Inc., (the Cooperative) which comprise the balance sheets as of January 2, 2016 and January 3, 2015, and the related statements of earnings, members' equity and cash flows for the fifty-two and fifty-three week periods 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 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 audits 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 the Cooperative as of January 2, 2016 and January 3, 2015, and the results of its operations and its cash flows for the fifty-two and fifty-three week periods then ended in conformity with accounting principles generally accepted in the United States of America.

Gallagher, Flynn & Company, LLP

March 22, 2016

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

BALANCE SHEETS

JANUARY 2, 2016 AND JANUARY 3, 2015

A S S E T S

	<u>January 2,</u> <u>2016</u>	<u>January 3,</u> <u>2015</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 412,101	\$ 449,163
Accounts receivable	51,382	50,166
Inventories	445,528	422,282
Prepaid expenses and other current assets	12,225	32,343
Deferred income taxes	<u>94,900</u>	<u>18,000</u>
Total current assets	<u>1,016,136</u>	<u>971,954</u>
PROPERTY AND EQUIPMENT, at cost		
Land and improvements	1,348,466	1,348,466
Buildings and improvements	1,598,672	1,598,672
Machinery and equipment	<u>1,023,838</u>	<u>938,356</u>
	3,970,976	3,885,494
Less accumulated depreciation	<u>1,176,136</u>	<u>1,031,308</u>
	2,794,840	2,854,186
Construction in progress	<u>99,480</u>	<u>-</u>
	<u>2,894,320</u>	<u>2,854,186</u>
OTHER ASSETS		
Investments in other cooperative associations	203,449	180,052
Deferred financing costs, less accumulation amortization of \$14,323 as of January 2, 2016 and \$10,377 as of January 3, 2015	53,660	57,606
Other	<u>20,247</u>	<u>14,906</u>
	<u>277,356</u>	<u>252,564</u>
	<u>\$ 4,187,812</u>	<u>\$ 4,078,704</u>

The accompanying notes are an integral part of these statements.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

BALANCE SHEETS

JANUARY 2, 2016 AND JANUARY 3, 2015

LIABILITIES AND MEMBERS' EQUITY

	<u>January 2, 2016</u>	<u>January 3, 2015</u>
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 202,116	\$ 341,769
Accounts payable	272,987	249,161
Accrued expenses and other current liabilities	150,977	169,522
Patronage refunds payable	12,629	40,000
Income taxes payable	697	-
Total current liabilities	<u>639,406</u>	<u>800,452</u>
LONG-TERM DEBT, less current maturities	<u>2,731,864</u>	<u>2,861,622</u>
DEFERRED INCOME TAXES	<u>221,900</u>	<u>41,000</u>
MEMBERS' EQUITY		
Capital stock	346,450	324,675
Donated capital	2,340	2,340
Retained earnings	<u>245,852</u>	<u>48,615</u>
	<u>594,642</u>	<u>375,630</u>
	<u>\$ 4,187,812</u>	<u>\$ 4,078,704</u>

The accompanying notes are an integral part of these statements.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

STATEMENTS OF EARNINGS

**FIFTY-TWO WEEK PERIOD ENDED JANUARY 2, 2016 AND
FIFTY-THREE WEEK PERIOD ENDED JANUARY 3, 2015**

	January 2, <u>2016</u>	January 3, <u>2015</u>
NET SALES	\$ 9,822,011	\$ 9,324,325
COST OF SALES	<u>6,583,723</u>	<u>6,321,774</u>
GROSS PROFIT	3,238,288	3,002,551
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>2,912,909</u>	<u>2,600,717</u>
EARNINGS FROM OPERATIONS	<u>325,379</u>	<u>401,834</u>
OTHER (INCOME) EXPENSES		
Interest expense	87,038	112,262
Patronage income	(48,351)	(92,334)
Other, net	<u>(14,545)</u>	<u>(893)</u>
	<u>24,142</u>	<u>19,035</u>
EARNINGS BEFORE PATRONAGE REFUND AND INCOME TAXES	301,237	382,799
PATRONAGE REFUND	<u>-</u>	<u>80,000</u>
EARNINGS BEFORE INCOME TAXES	301,237	302,799
PROVISION FOR INCOME TAXES	<u>104,000</u>	<u>96,754</u>
NET EARNINGS	<u>\$ 197,237</u>	<u>\$ 206,045</u>

The accompanying notes are an integral part of these statements.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

STATEMENTS OF MEMBERS' EQUITY

**FIFTY-TWO WEEK PERIOD ENDED JANUARY 2, 2016 AND
FIFTY-THREE WEEK PERIOD ENDED JANUARY 3, 2015**

	<u>Capital Stock</u>		<u>Share Credits</u>	<u>Allocated Capital</u>	<u>Donated Capital</u>	<u>Retained</u> <u>Earnings</u> <u>(Accumulated</u> <u>Deficit)</u>	<u>Total</u>
	<u>Shares</u>	<u>Value</u>					
BALANCE, December 29, 2013	10,713	\$ 267,825	\$ -	\$ -	\$ 1,505	\$ (157,430)	\$ 111,900
Net earnings	-	-	-	-	-	206,045	206,045
Shares issued, net of cancellations	674	16,850	-	-	-	-	16,850
Donated capital	-	-	-	-	835	-	835
Allocation of patronage refund to be issued as capital stock	-	-	-	40,000	-	-	40,000
BALANCE, January 3, 2015	11,387	284,675	-	40,000	2,340	48,615	375,630
Net earnings	-	-	-	-	-	197,237	197,237
Share credits issued in satisfaction of allocated capital	-	-	40,000	(40,000)	-	-	-
Shares issued, net of cancellations	872	21,800	(25)	-	-	-	21,775
BALANCE, January 2, 2016	<u>12,259</u>	<u>\$ 306,475</u>	<u>\$ 39,975</u>	<u>\$ -</u>	<u>\$ 2,340</u>	<u>\$ 245,852</u>	<u>\$ 594,642</u>

The accompanying notes are an integral part of these statements.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

STATEMENTS OF CASH FLOWS

**FIFTY-TWO WEEK PERIOD ENDED JANUARY 2, 2016 AND
FIFTY-THREE WEEK PERIOD ENDED JANUARY 3, 2015**

	January 2, <u>2016</u>	January 3, <u>2015</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	\$ 197,237	\$ 206,045
Noncash items included in net earnings:		
Depreciation and amortization	219,560	190,852
Patronage refund declared	-	80,000
Patronage investments in cooperatives received	(7,565)	(25,050)
Gain on disposal of equipment	(381)	(300)
Deferred income taxes	104,000	96,754
Changes in assets and liabilities:		
Accounts receivable	(1,216)	(39,714)
Inventories	(23,246)	4,639
Prepaid expenses and other current assets	20,118	(17,567)
Other assets	(5,341)	1,549
Accounts payable	23,826	20,378
Accrued expenses and other current liabilities	(18,545)	(15,306)
Income taxes payable	697	(1,000)
	<u>311,907</u>	<u>295,235</u>
Net cash provided by operating activities	<u>509,144</u>	<u>501,280</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(255,867)	(10,378)
Proceeds from sale of property and equipment	500	300
Purchases of investments in cooperatives	(15,832)	(3,545)
Net cash used in investing activities	<u>(271,199)</u>	<u>(13,623)</u>
Subtotal (forward)	<u>\$ 237,945</u>	<u>\$ 487,657</u>

(CONTINUED)

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

STATEMENTS OF CASH FLOWS

**FIFTY-TWO WEEK PERIOD ENDED JANUARY 2, 2016 AND
FIFTY-THREE WEEK PERIOD ENDED JANUARY 3, 2015**

	January 2, <u>2016</u>	January 3, <u>2015</u>
Subtotal (forwarded)	\$ 237,945	\$ 487,657
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowings	78,297	-
Principal payments on long-term borrowings	(347,708)	(346,286)
Deferred financing costs	-	(5,850)
Patronage refund liability paid	(27,371)	-
Proceeds from issuance of capital stock, net	<u>21,775</u>	<u>16,850</u>
Net cash used in financing activities	<u>(275,007)</u>	<u>(335,286)</u>
Net increase (decrease) in cash and cash equivalents	(37,062)	152,371
CASH AND CASH EQUIVALENTS, beginning of period	<u>449,163</u>	<u>296,792</u>
CASH AND CASH EQUIVALENTS, end of period	<u><u>\$ 412,101</u></u>	<u><u>\$ 449,163</u></u>
<u>Supplemental Disclosures of Cash Flows Information</u>		
Cash paid during the period for:		
Interest expense	<u>\$ 131,941</u>	<u>\$ 151,763</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these statements.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JANUARY 2, 2016 AND JANUARY 3, 2015

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES

Operations:

The Littleton Consumer Cooperative Society, Inc., (the Cooperative) was incorporated in New Hampshire in 2006. The Cooperative operates a member-owned food store in Littleton, New Hampshire, open to its members and the general public. The majority of sales are to members of the Cooperative. Sales to members were approximately 66% and 62% of total sales for the period ending January 2, 2016 and January 3, 2015.

Accounting policies:

A summary of the Cooperative's significant accounting policies applied in the preparation of the accompanying financial statements follows:

1. Fiscal year end

The Cooperative's fiscal year ends on the Saturday nearest to December 31. The fiscal periods ended January 2, 2016 and January 3, 2015 included fifty-two and fifty-three weeks, respectively.

2. Cash and cash equivalents

For purpose of the statement of cash flows, the Cooperative considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents.

3. Accounts receivables

The Cooperative includes in accounts receivable patronage refund amounts expected to be received as a result of its membership in cooperatives (see Note B). Management considers the following factors when determining the collectibility of these receivables: financial condition of the related cooperative, past transaction history, current economic industry trends, and changes in inventory purchases. If the financial condition of the cooperatives, in which the Cooperative is invested, was to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, the Cooperative provides for estimated uncollectible amounts through a charge to earnings and a credit to a valuation allowance. At January 2, 2016 and January 3, 2015, no allowance was required.

4. Inventory

Inventory is stated at the lower of cost or market. Cost is determined using the retail method, which approximates actual cost.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JANUARY 2, 2016 AND JANUARY 3, 2015

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

5. Property and equipment

Depreciation and amortization are provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Leasehold improvements are amortized over the lives of the respective leases or the service lives of the improvements, whichever are shorter. The straight-line method of depreciation is followed for substantially all assets for financial reporting purposes, but accelerated methods are used for tax purposes.

6. Impairment of long-lived assets

Long-lived assets, such as property and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows. An impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. No impairment loss was required to be recognized in the periods ended January 2, 2016 and January 3, 2015.

7. Investment in other cooperative associations

Nonmarketable investments in cooperative associations are carried at cost and are evaluated for impairment annually to adjust the investments to their net realizable value. No impairment loss was required to be recognized in the periods ended January 2, 2016 and January 3, 2015.

8. Income taxes

Temporary differences giving rise to deferred income taxes consist primarily of the excess of depreciation for tax purposes over the amount for financial reporting purposes, accrued compensation, net operating losses, and certain expenses, which are reported differently for financial reporting and tax purposes.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JANUARY 2, 2016 AND JANUARY 3, 2015

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

8. Income taxes (continued)

Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of earnings.

9. Advertising expenses

Advertising costs are charged to operations when incurred. Advertising expense charged to operations were approximately \$38,900 and \$47,000 for the periods ended January 2, 2016 and January 3, 2015.

10. Deferred financing costs

Loan commitment fees and related legal expenses are amortized by charges to operations on a straight-line basis, which approximates the effective interest method, over the term of the loan. Future amortization expense is expected to be approximately \$3,900 in 2016, and \$3,300 in 2017, 2018, 2019, and 2020.

11. Use of estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

12. Evaluation of subsequent events

In preparing these financial statements, the Cooperative has evaluated events and transactions for potential recognition or disclosure through March 22, 2016, the date the financial statements were available to be issued.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JANUARY 2, 2016 AND JANUARY 3, 2015

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

13. New accounting pronouncements

Presentation of Debt Issuance Costs

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. Per the ASU, debt issuance costs related to a recognized debt liability are to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the new guidance. This ASU is effective in 2016 and is to be implemented on a retrospective basis. The Cooperative is currently evaluating the impact of adopting the ASU on the presentation in its consolidated financial statements.

Balance Sheet Classification of Deferred Taxes

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. Per the ASU, deferred income tax assets and liabilities will no longer be separated into current and noncurrent amounts in a classified balance sheet. The recognition and measurement guidance for deferred income taxes are not affected by the new guidance. This ASU is effective in 2018 and may be implemented on a prospective or retrospective basis. The Cooperative is currently evaluating the impact of adopting the ASU on the presentation of its consolidated financial statements.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JANUARY 2, 2016 AND JANUARY 3, 2015

B) INVESTMENTS IN OTHER COOPERATIVE ASSOCIATIONS

The investments in cooperative associations are nonmarketable investments, which consist of the following at:

	<u>January 2, 2016</u>	<u>January 3, 2015</u>
Associated Grocers of New England, Inc. (AG):		
AGNE is a consumer goods membership cooperative that provides members with discounted purchase pricing and annual patronage rebates in cash, certificates of indebtedness and patronage shares. Members initially purchase one share of Class A stock at \$5,000 and purchase additional shares of Class B stock annually based on total merchandise purchases. Class A and B stock are eligible to pay cash dividends and are redeemable in the event that the Cooperative terminates membership, as defined. The Cooperative owns one share of Class A stock at January 2, 2016 and January 3, 2015. The Cooperative owns 917 and 841 shares of Class B stock at January 2, 2016 and January 3, 2015, respectively.	\$ 183,683	\$ 167,851
National Cooperative Grocers Association (NCGA):		
A business services cooperative that provides members with annual patronage rebates in cash and patronage shares. Members initially purchase one share of voting stock at \$500 and maintain a base equity investment of 0.1% of annual purchases of inventory from NCGA. Base equity investments are redeemable at the discretion of the NCGA board of directors and eligible to receive cash dividends. At January 2, 2016 and January 3, 2015, the Cooperative owns one share of voting stock.	19,666	12,101
Other	<u>100</u>	<u>100</u>
	<u>\$ 203,449</u>	<u>\$ 180,052</u>

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JANUARY 2, 2016 AND JANUARY 3, 2015

C) LONG-TERM DEBT

Long-term debt consists of the following at:

	<u>January 2, 2016</u>	<u>January 3, 2015</u>
Woodsville Guaranty Savings Bank - Payable in monthly installments of \$9,467, including interest at 3.25% through June 2019, at which time the interest rate will change to <i>The Wall Street Journal</i> prime rate (3.50% at January 2, 2016) plus 1.50%. Due February 2032. Secured by a mortgage on real estate and equipment.	\$ 1,427,071	\$ 1,493,123
Granite State Economic Development Corporation (GSEDC) - Payable in monthly installments of \$7,324, including interest at 2.72%, due April 2032. Secured by a second mortgage on real estate and a second interest on equipment and is guaranteed by the United States Small Business Administration.	1,158,275	1,209,300
Cooperative Fund of New England, Inc. (CFNE) - Balance is due under a revolving, \$150,000 line of credit with no fixed repayment terms. The outstanding balance is due March 2020. Interest is payable monthly at 5.5%. The note is secured by a first security interest in inventory and a second interest in certain assets.	<u>50,000</u>	<u>-</u>
Subtotal (forward)	<u>\$ 2,635,346</u>	<u>\$ 2,702,423</u>

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JANUARY 2, 2016 AND JANUARY 3, 2015

C) LONG-TERM DEBT (continued)

	<u>January 2, 2016</u>	<u>January 3, 2015</u>
Subtotal (forwarded)	\$ 2,635,346	\$ 2,702,423
Revolving Loan Fund, administered by the GCEDC -		
Payable in annual maximum installments of \$15,000 contingent upon excess cash flows as defined in the Revolving Loan Fund (RLF) agreement with the Grafton County Economic Development Corporation. Noninterest bearing and unsecured.	220,000	235,000
Grafton County Economic Development Council (GCEDC) -		
Two notes payable in aggregate monthly installments of \$3,925, including interest at 5%, due February 2017. Secured by a fourth mortgage on real estate and a third interest on equipment.	53,118	96,380
Associated Grocers of New England, Inc. (AG) -		
Three notes payable in aggregate weekly installments of \$474, including interest ranging from 1% to 2%, due through September 2017. The notes are secured by equipment.	25,516	9,088
Member Loans -		
Unsecured agreements, payable in annual installments aggregating approximately \$161,000, with interest ranging from 4% to 5%, paid in full in May 2015.	<u>-</u>	<u>160,500</u>
	2,933,980	3,203,391
Principal payments due within one year	<u>202,116</u>	<u>341,769</u>
	<u>\$ 2,731,864</u>	<u>\$ 2,861,622</u>

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JANUARY 2, 2016 AND JANUARY 3, 2015

C) LONG-TERM DEBT (continued)

Interest expense charged to operations for member loans was approximately \$3,200 and \$10,000 during the periods ended January 2, 2016 and January 3, 2015, respectively.

The Cooperative also incurs monthly loan servicing fees payable to the United States Small Business Administration (“SBA”) on the outstanding GSEDC long-term debt at a 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, currently \$2,065 monthly through May 2017. Fees charged to operations were approximately \$22,700 and \$26,900 during the periods ended January 2, 2016 and January 3, 2015, respectively.

As of January 2, 2016, long-term debt matures as follows:

Fiscal Periods Ending on or Around <u>December 31,</u>	<u>Amount</u>
2016	\$ 202,116
2017	161,064
2018	148,123
2019	152,184
2020	206,369
Thereafter	<u>2,064,124</u>
	<u>\$ 2,933,980</u>

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JANUARY 2, 2016 AND JANUARY 3, 2015

D) INCOME TAXES

The provision for income taxes consists of the following at:

	January 2, <u>2016</u>	January 3, <u>2015</u>
Currently payable, net of tax benefit of net operating loss carryforward of \$89,000 in the period ending January 2, 2016	\$ -	\$ -
Deferred	<u>104,000</u>	<u>96,754</u>
	<u>\$ 104,000</u>	<u>\$ 96,754</u>

Deferred tax assets and liabilities consist of the following at:

Deferred tax assets:		
Accrued expenses	\$ 28,800	\$ 18,000
Net operating loss carryforward	<u>176,500</u>	<u>214,200</u>
	<u>\$ 205,300</u>	<u>\$ 232,200</u>
Deferred tax liabilities:		
Depreciation	\$ 318,700	\$ 241,600
Accrued patronage refund receivable	<u>13,600</u>	<u>13,600</u>
	<u>\$ 332,300</u>	<u>\$ 255,200</u>

At January 2, 2016, the Cooperative has approximately \$519,200 of net operating loss carryforward available to reduce future federal taxable income, expiring through 2035.

The Cooperative files income tax returns in the U.S. federal jurisdiction and one state jurisdiction. With few exceptions, the Cooperative is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for fiscal periods before January 1, 2012.

During the periods ended January 2, 2016 and January 3, 2015, the Cooperative recognized no interest or penalties related to unrecognized tax benefits.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JANUARY 2, 2016 AND JANUARY 3, 2015

E) MEMBERS' EQUITY

Capital stock: The Certificate of Organization authorizes 40,000 shares of stock, \$25 par value. Dividends may be paid on share capital as determined by the board of directors (the Board). An individual or an organization is a member by holding shares of capital stock. A member that holds four or more shares of capital stock is a voting member, entitled to one vote at any meeting of the Cooperative. If a member elects to discontinue membership and request a refund, the Cooperative, at the discretion of the Board, may repurchase all shares from a member or approve the transfer of shares to a person or organization.

Reserve fund: The Cooperative has established a reserve fund, which is also known as "retained earnings." Following the close of the fiscal year, net earnings are first used to replenish accumulated losses, if any. Then the Cooperative is to set aside in the reserve fund an annual allotment of not less than ten percent of the net earnings of the Cooperative for each year (if any) as well as other capital transactions as defined in the By-Laws.

Patronage refunds: Patronage refunds are determined at the discretion of the Board from net earnings that are not allocated to the reserve fund, non-cumulative dividends, and the education reserve. The patronage refund rate cannot exceed the amount of net earnings before provision for income taxes allocable to members based upon the percentage of sales to members. Patronage refunds are calculated under a formula by applying the percentage of sales to members and non-member patrons to calculate member net earnings and non-member earnings (also known as "savings"). The Board can issue patronage refunds in the form of cash, certificates of indebtedness, credit toward purchases at the Cooperative, or up to 50% of the distribution could be provided in the form of credits towards the purchase of capital stock ("share credits"). Patronage refunds of less than \$10 are distributed in the form of merchandise certificates redeemable within the Cooperative. 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 as increases to retained earnings at the discretion of the Board to support general operations of the Cooperative.

Patronage refunds declared and issued

Total patronage refunds were \$0 and \$80,000 for the periods ended January 2, 2016 and January 3, 2015, respectively. For the year ending on January 3, 2015, the Board authorized issuance of \$40,000 of the refund in credits to be redeemed for additional common stock in the future and \$40,000 in cash and certificates redeemable within the Cooperative. The cash and merchandise certificate portion was reflected as a current liability and the credits as allocated equity at January 3, 2015.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC.

NOTES TO FINANCIAL STATEMENTS

JANUARY 2, 2016 AND JANUARY 3, 2015

F) RETIREMENT PLAN

The Cooperative participates in a SIMPLE IRA plan (the Plan) that covers substantially all employees of the Cooperative. The Cooperative matches up to 3% of employees' wages based on employee contributions. Matching contributions to the Plan charged to operations were approximately \$28,700 and \$22,300 during the periods ended January 2, 2016 and January 3, 2015.

G) MAJOR SUPPLIERS

During the period ended January 2, 2016, the Cooperative purchased approximately \$3,983,000 (61% of total purchases) of its goods from an unrelated party and AG, a related party (see Note B). At January 2, 2016, amounts due to these suppliers, included in accounts payable, totaled approximately \$110,500

During the period ended January 3, 2015, the Cooperative purchased approximately \$3,826,000 (61% of total purchases) of its goods from an unrelated party and AG, a related party (see Note B). At January 3, 2015, amounts due to these suppliers, included in accounts payable, totaled approximately \$116,000.

H) RELATED-PARTY TRANSACTIONS

The Cooperative is a member of AG (see Note B). The Cooperative purchased goods and groceries from AG of approximately \$2,697,000 and \$2,669,000 during the periods ended January 2, 2016 and January 3, 2015. Amounts due to AG, included in accounts payable, were approximately \$53,000 at January 2, 2016 and \$56,000 at January 3, 2015. Patronage refunds due from AG, included in accounts receivable, were approximately \$39,000 and \$30,000 at January 2, 2016 and January 3, 2015.

As of June 2015, the Cooperative offers a 15% discount on purchases made by employees; previously, the employee discount was 10% for employees on everything except alcohol. Total gross sales to employees for the period ended January 2, 2016 and January 3, 2015 were approximately \$296,500 and \$220,000. The discounts on these sales were included as reductions to gross sales in the statement of earnings and approximated \$37,000 and \$22,000 for the periods ended January 2, 2016 and January 3, 2015.