

CONSOLIDATED FINANCIAL STATEMENTS
INDEPENDENT AUDITOR'S REPORT
AND CONSOLIDATING SUPPLEMENTAL INFORMATION
LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY
DECEMBER 31, 2016 AND JANUARY 2, 2016

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

DECEMBER 31, 2016 AND JANUARY 2, 2016

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Independent Auditor's Report

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

Report on the Consolidated financial statements

We have audited the accompanying consolidated financial statements of Littleton Consumer Cooperative Society, Inc., and Subsidiary (collectively, the "Cooperative") which comprise the consolidated balance sheets as of December 31, 2016 and January 2, 2016, and the related consolidated statements of earnings, members' equity and cash flows for the fifty-two week periods then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Cooperative as of December 31, 2016 and January 2, 2016, and the results of its operations and its cash flows for the fifty-two week periods then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The accompanying consolidating balance sheet as of December 31, 2016, and the related consolidating statements of earnings and cash flows for the fifty-two week period then ended, are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Gallagher, Flynn & Company, LLP

March 30, 2017

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2016 AND JANUARY 2, 2016

A S S E T S

| | December 31, <u>2016</u> | January 2, <u>2016</u> |
|---|-----------------------------|---------------------------|
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 676,106 | \$ 412,101 |
| Restricted cash, current portion | 807,336 | - |
| Accounts receivable | 57,219 | 51,382 |
| Inventories | 472,343 | 445,528 |
| Prepaid expenses and other current assets | 23,716 | 12,225 |
| Deferred income taxes | <u>25,100</u> | <u>94,900</u> |
| Total current assets | <u>2,061,820</u> | <u>1,016,136</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>1,028,244</u> | <u>1,023,838</u> |
| | 3,975,382 | 3,970,976 |
| Less accumulated depreciation | <u>1,320,207</u> | <u>1,176,136</u> |
| | 2,655,175 | 2,794,840 |
| Construction in progress | <u>1,844,557</u> | <u>99,480</u> |
| | <u>4,499,732</u> | <u>2,894,320</u> |
| OTHER ASSETS | | |
| Restricted cash, less current portion | 2,052,035 | - |
| Note receivable | 4,722,800 | - |
| Investments in other cooperative associations | 223,766 | 203,449 |
| Other | <u>24,609</u> | <u>20,247</u> |
| | <u>7,023,210</u> | <u>223,696</u> |
| | <u>\$ 13,584,762</u> | <u>\$ 4,134,152</u> |

The accompanying notes are an integral part of these statements.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2016 AND JANUARY 2, 2016

LIABILITIES AND MEMBERS' EQUITY

| | December 31, <u>2016</u> | January 2, <u>2016</u> |
|--|-----------------------------|---------------------------|
| CURRENT LIABILITIES | | |
| Current maturities of long-term debt | \$ 103,880 | \$ 202,116 |
| Accounts payable | | |
| Trade | 256,974 | 272,987 |
| Construction-related | 807,336 | - |
| Accrued expenses and other current liabilities | 214,879 | 151,674 |
| Patronage refunds payable | <u>12,142</u> | <u>12,629</u> |
| Total current liabilities | <u>1,395,211</u> | <u>639,406</u> |
| | | |
| LONG-TERM DEBT, less current maturities | <u>11,268,273</u> | <u>2,678,204</u> |
| | | |
| DEFERRED INCOME TAXES | <u>182,400</u> | <u>221,900</u> |
| | | |
| MEMBERS' EQUITY | | |
| Capital stock | 369,525 | 346,450 |
| Donated capital | 2,340 | 2,340 |
| Retained earnings | <u>346,941</u> | <u>245,852</u> |
| | 718,806 | 594,642 |
| Noncontrolling interest in subsidiary | <u>20,072</u> | <u>-</u> |
| | <u>738,878</u> | <u>594,642</u> |
| | | |
| | <u>\$ 13,584,762</u> | <u>\$ 4,134,152</u> |

The accompanying notes are an integral part of these statements.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF EARNINGS

**FIFTY-TWO WEEK PERIODS ENDED DECEMBER 31, 2016 AND
JANUARY 2, 2016**

| | December 31, <u>2016</u> | January 2, <u>2016</u> |
|--|-----------------------------|---------------------------|
| NET SALES | \$ 10,104,458 | \$ 9,822,011 |
| COST OF SALES | <u>6,760,369</u> | <u>6,583,723</u> |
| GROSS PROFIT | 3,344,089 | 3,238,288 |
| SELLING, GENERAL AND AND ADMINISTRATIVE EXPENSES | <u>3,031,563</u> | <u>2,908,963</u> |
| EARNINGS FROM OPERATIONS | <u>312,526</u> | <u>329,325</u> |
| OTHER (INCOME) EXPENSES | | |
| Interest expense | 247,171 | 90,984 |
| Interest income | (22,078) | - |
| Patronage income | (35,925) | (48,351) |
| Other, net | <u>(6,363)</u> | <u>(14,545)</u> |
| | <u>182,805</u> | <u>28,088</u> |
| EARNINGS BEFORE INCOME TAXES | 129,721 | 301,237 |
| PROVISION FOR INCOME TAXES | <u>30,300</u> | <u>104,000</u> |
| NET EARNINGS | 99,421 | 197,237 |
| LESS: NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST | <u>(1,668)</u> | <u>-</u> |
| NET EARNINGS ATTRIBUTABLE TO LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. | <u>\$ 101,089</u> | <u>\$ 197,237</u> |

The accompanying notes are an integral part of these statements.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF MEMBERS' EQUITY

**FIFTY-TWO WEEK PERIODS ENDED DECEMBER 31, 2016 AND
JANUARY 2, 2016**

| | LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. | | | | | | | | |
|--|--|-------------------|------------------|----------------------|--------------------|----------------------|-------------------|----------------------------|-------------------|
| | Capital Stock | | Share Credits | Allocated Capital | Donated Capital | Retained Earnings | Total | Noncontrolling interest | Total |
| | Shares | Value | | | | | | | |
| BALANCE, January 3, 2015 | 11,387 | \$ 284,675 | \$ - | \$ 40,000 | \$ 2,340 | \$ 48,615 | \$ 375,630 | \$ - | \$ 375,630 |
| Net earnings | - | - | - | - | - | 197,237 | 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 | - | 21,775 |
| BALANCE, January 2, 2016 | 12,259 | 306,475 | 39,975 | - | 2,340 | 245,852 | 594,642 | - | 594,642 |
| Capital contribution | - | - | - | - | - | - | - | 21,740 | 21,740 |
| Net earnings (loss) | - | - | - | - | - | 101,089 | 101,089 | (1,668) | 99,421 |
| Shares issued, net of cancellations | 924 | 23,100 | (25) | - | - | - | 23,075 | - | 23,075 |
| BALANCE, December 31, 2016 | <u>13,183</u> | <u>\$ 329,575</u> | <u>\$ 39,950</u> | <u>\$ -</u> | <u>\$ 2,340</u> | <u>\$ 346,941</u> | <u>\$ 718,806</u> | <u>\$ 20,072</u> | <u>\$ 738,878</u> |

The accompanying notes are an integral part of these statements.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

**FIFTY-TWO WEEK PERIODS ENDED DECEMBER 31, 2016 AND
JANUARY 2, 2016**

| | December 31, <u>2016</u> | January 2, <u>2016</u> |
|---|-----------------------------|---------------------------|
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net earnings | \$ 99,421 | \$ 197,237 |
| Noncash items included in net earnings: | | |
| Amortization expense of debt issuance costs included in interest expense | 64,498 | 3,946 |
| Depreciation expense | 144,070 | 219,560 |
| Patronage investments in cooperatives received | (16,118) | (7,565) |
| Deferred income taxes | 30,300 | 104,000 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (5,837) | (1,216) |
| Inventories | (26,815) | (23,246) |
| Prepaid expenses and other current assets | (11,491) | 20,118 |
| Other assets | (4,362) | (5,341) |
| Accounts payable | (16,013) | 23,826 |
| Accrued expenses and other current liabilities | 63,205 | (17,848) |
| | <u>221,437</u> | <u>316,234</u> |
| Net cash provided by operating activities | <u>320,858</u> | <u>513,471</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures | (1,749,482) | (255,748) |
| Restricted cash | (2,859,371) | - |
| Issuance of note receivable | (4,722,800) | - |
| Purchases of investments in cooperatives | (4,199) | (15,832) |
| Net cash used in investing activities | <u>(9,335,852)</u> | <u>(271,580)</u> |
| Subtotal (forward) | \$ <u>(9,014,994)</u> | \$ <u>241,891</u> |

(CONTINUED)

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

**FIFTY-TWO WEEK PERIODS ENDED DECEMBER 31, 2016 AND
JANUARY 2, 2016**

| | December 31, <u>2016</u> | January 2, <u>2016</u> |
|--|-----------------------------|---------------------------|
| Subtotal (forwarded) | \$ (9,014,994) | \$ 241,891 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Accounts payable - construction-related | 807,336 | - |
| Proceeds from long-term borrowings | 11,540,000 | 78,297 |
| Principal payments on long-term borrowings | (2,745,094) | (351,654) |
| Patronage refund liability paid | (487) | (27,371) |
| Deferred financing costs | (367,571) | - |
| Capital contribution | 21,740 | - |
| Proceeds from issuance of capital stock, net | <u>23,075</u> | <u>21,775</u> |
| Net cash provided by (used in) financing activities | <u>9,278,999</u> | <u>(278,953)</u> |
| Net increase (decrease) in cash and cash equivalents | 264,005 | (37,062) |
| CASH AND CASH EQUIVALENTS, beginning of period | <u>412,101</u> | <u>449,163</u> |
| CASH AND CASH EQUIVALENTS, end of period | <u>\$ 676,106</u> | <u>\$ 412,101</u> |
| <u>Supplemental Disclosures of Cash Flows Information</u> | | |
| Cash paid during the period for: | | |
| Interest expense | <u>\$ 170,629</u> | <u>\$ 131,941</u> |
| Income taxes | <u>\$ 568</u> | <u>\$ -</u> |

The accompanying notes are an integral part of these statements.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND JANUARY 2, 2016

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES

Operations:

The Littleton Consumer Cooperative Society, Inc. (Littleton Consumer Cooperative), was incorporated in New Hampshire in 2006, and operates a member-owned food store in Littleton, New Hampshire, open to its members and the general public. Sales to members were approximately 68% and 66% of total sales for the period ending December 31, 2016 and January 2, 2016.

The Littleton Food Market, LLC (Littleton Food Market) was formed in August 2016. During 2016, Littleton Consumer Cooperative acquired a 95% interest in Littleton Food Market. Thereafter, the Littleton Consumer Cooperative and Littleton Food Market entered into agreements with unrelated parties to facilitate financing for the expansion of Littleton Consumer Cooperative's food store (Notes B and D). Construction of the facility expansion commenced in July 2016 and is expected to be completed by May 2017.

Accounting policies:

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

1. Principles of consolidation

The consolidated financial statements for 2016 include the accounts of the Littleton Consumer Cooperative Society, Inc. and its majority owned subsidiary, Littleton Food Market, LLC (collectively, the "Cooperative"). All material intercompany transactions have been eliminated. The financial statements for 2015 include only the Littleton Consumer Cooperative Society, Inc.

2. Fiscal year end

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

3. 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.

4. Restricted cash

Restricted cash represents amounts borrowed under long-term debt agreements (see Note D) and available to fund future qualifying construction costs. Such amounts are restricted for use and are required to be reserved in three funds pursuant to agreements between Littleton Consumer Cooperative and MCD Subsidiary CDE 3, LLC (MCD).

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND JANUARY 2, 2016

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

4. Restricted cash (continued)

The disbursement account includes proceeds received from long-term debt, which are distributed as defined and are pledged as collateral for the related long-term debt. The debt service reserve requires a minimum balance of \$37,250 and the distribution reserve requires a monthly deposit of \$14,150, with all disbursements made at the discretion of MCD in accordance with the agreement.

5. Accounts receivable

Accounts receivable consists primarily of patronage refund amounts expected to be received as a result of membership in cooperatives (see Note C). Management considers the following factors when determining the collectability 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 December 31, 2016 and January 2, 2016, no allowance was required.

6. Inventory

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

7. 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. The straight-line method of depreciation is followed for substantially all assets for financial reporting purposes, but accelerated methods are used for tax purposes.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND JANUARY 2, 2016

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

8. 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 December 31, 2016 and January 2, 2016.

9. 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 December 31, 2016 and January 2, 2016.

10. Income taxes

Items of income and expense recognized by Littleton Food Market, LLC are passed through and taxable entirely to the members under the terms of the operating agreement and federal income tax regulations.

Temporary differences giving rise to deferred income taxes for Littleton Consumer Cooperative 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 consolidated 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. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND JANUARY 2, 2016

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

10. 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 consolidated 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 consolidated statement of earnings.

11. Advertising expenses

Advertising costs are charged to operations when incurred. Advertising expenses charged to operations were approximately \$41,700 and \$38,900 for the periods ended December 31, 2016 and January 2, 2016.

12. Deferred financing costs

Debt issuance costs are amortized over the term of the related financing agreement on a straight-line basis, which approximates the effective interest method. Effective January 3, 2016, the Cooperative adopted Accounting Standards Update (ASU) 2015-03, *Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, which requires the presentation of debt issuance costs as a direct deduction from the carrying amount of the related debt liability in the consolidated balance sheet and the related amortization expense as interest in the consolidated statement of earnings. The new guidance was applied on a retrospective basis, resulting in a reclassification of \$3,946 from operating expenses to interest expense during the fifty-two week period ended January 2, 2016, and approximately \$54,000 from deferred financing costs, net of accumulated amortization, to long-term debt as of January 2, 2016. Interest expense related to the debt issuance costs was \$64,498 during the fifty-two week period ended December 31, 2016.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND JANUARY 2, 2016

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

13. Use of estimates

In preparing consolidated 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 consolidated financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

14. Evaluation of subsequent events

In preparing these consolidated financial statements, the Cooperative has evaluated events and transactions for potential recognition or disclosure through March 30, 2017, the date the consolidated financial statements were available to be issued.

15. New accounting pronouncements

The Cooperative is currently evaluating the impact of adopting the following recently issued accounting pronouncements:

Revenue recognition

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which provides a robust framework for addressing revenue recognition issues and, upon its effective date, replaces almost all existing revenue recognition guidance, including industry-specific guidance, in current U.S. generally accepted accounting principles. The revenue recognition policies of almost all entities will be affected by the new guidance in the ASU. The degree to which an entity's revenue recognition policies will change upon the adoption of the ASU, and the effects the changes will have on the entity's financial statements will vary depending on the nature and terms of the entity's revenue-generating transactions. In addition, entities in some industries likely will be affected by the new guidance in the ASU more than entities in other industries. Given the broad applicability and potentially significant ramifications of the guidance in the ASU, the FASB provided significantly delayed effective dates for its guidance. The ASU is effective for fiscal years beginning after December 15, 2018.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND JANUARY 2, 2016

A) SUMMARY OF OPERATIONS AND ACCOUNTING POLICIES (continued)

15. New accounting pronouncements (continued)

Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02 *Leases (Topic 842)*. This ASU was issued in three parts: (a) Section A, Leases: Amendments to the FASB *Accounting Standards Codification*, (b) Section B, Conforming Amendments Related to Leases: Amendments to the FASB *Accounting Standards Codification*, and (c) Section C, Background Information and Basis for Conclusions. While both lessees and lessors are affected by the new guidance which includes many changes, the effects on lessees are much more significant. The most significant change for lessees is the requirement to recognize right-of-use assets and lease liabilities for all leases not considered short-term leases, affecting leases which previously were accounted for as operating leases. This ASU is effective for years beginning after December 15, 2019, and must be implemented using a modified retrospective approach.

Balance Sheet Classification of Deferred Taxes

In November 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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 for years beginning after December 15, 2017, and may be implemented on a prospective or retrospective basis.

B) NOTE RECEIVABLE

During 2016, Littleton Food Market used the proceeds of long-term debt (Note D) to loan \$4,720,800 to Twain Investment Fund 185, LLC (“Twain”, a wholly-owned subsidiary of US Bancorp Community Development Corporation). The note is receivable with monthly interest only payments at an effective annual interest rate of 2.76%, due September 2023. The note is secured by Twain’s membership interest in MCD Subsidiary CDE3, LLC (see Note D).

The Littleton Food Market has entered into a put and call option agreement allowing US Bancorp Community Development Corporation to put their interest in Twain to Littleton Food Market at a price of \$1,000. The put option period is six months commencing October 1, 2023. The Littleton Food Market then has a call option which is the six months following the expiration of the put option period. During the call option period, the Littleton Food Market can call the investment in Twain at a price equal to the fair market value of Twain.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND JANUARY 2, 2016

C) INVESTMENTS IN OTHER COOPERATIVE ASSOCIATIONS

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

| | December 31, <u>2016</u> | January 2, <u>2016</u> |
|---|-----------------------------|---------------------------|
| Associated Grocers of New England, Inc. (AG): | | |
| AG 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 December 31, 2016 and January 2, 2016. The Cooperative owns 973 and 917 shares of Class B stock at December 31, 2016 and January 2, 2016, respectively. | \$ 195,630 | \$ 183,683 |
| National Cooperative Grocers (NCG): | | |
| 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 NCG. Base equity investments are redeemable at the discretion of the NCG board of directors and eligible to receive cash dividends. At December 31, 2016 and January 2, 2016, the Cooperative owns one share of voting stock. | 25,036 | 19,666 |
| Other | <u>3,100</u> | <u>100</u> |
| | <u>\$ 223,766</u> | <u>\$ 203,449</u> |

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND JANUARY 2, 2016

D) LONG-TERM DEBT

In October 2016, the Cooperative entered into numerous agreements in order to finance the expansion and renovation of Littleton Consumer Cooperative’s operating facility in a manner that will provide new market tax credits to an unrelated qualified community development entity (CDE). Under the financing arrangements, Littleton Food Market borrowed \$4,300,000 from Mascoma Savings Bank and New Hampshire Community Loan Fund under long-term debt agreements and loaned the proceeds to Twain (see Note B). Twain used the proceeds from this loan to obtain a majority membership interest in MCD Subsidiary CDE 3, LLC (MCD). Subsequently, Littleton Consumer Cooperative borrowed \$6,700,000 from MCD to finance construction costs to renovate and expand its operating facility, purchase equipment for operations, refinance long-term debt from Woodsville Guaranty Savings Bank and Granite State Economic Development Corporation, finance the cost of acquiring long-term debt, and provide working capital for operations.

Long-term debt consists of the following at:

| | December 31, 2016 | January 2, 2016 |
|---|----------------------|--------------------|
| <i>Littleton Consumer Cooperative</i> | | |
| MCD Subsidiary CDE 3, LLC (MCD, a subsidiary of Twain, see Note B) – | | |
| These notes are secured by substantially all assets of Littleton Consumer Cooperative. Provisions of the loan agreements include, among other things, maintenance of a debt service coverage ratio, which will be enforced upon completion of the construction. | | |
| Three notes payable with monthly interest-only payments at 2.46%, due September 2024. As of December 31, 2016, the outstanding balance of these notes were net of \$186,736 of deferred financing costs, which were net of accumulated amortization of \$6,885. | \$ 4,534,064 | \$ - |
| Note payable with monthly interest-only payments at 2.46%, due September 2051. As of December 31, 2016, the outstanding balance of this note was net of \$79,112 of deferred financing costs, which were net of accumulated amortization of \$587. | <u>1,864,088</u> | <u>-</u> |
| Subtotal (forward) | <u>\$ 6,398,152</u> | <u>\$ -</u> |

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND JANUARY 2, 2016

D) LONG-TERM DEBT (continued)

| | December 31, <u>2016</u> | January 2, <u>2016</u> |
|---|-----------------------------|---------------------------|
| Subtotal (forwarded) | \$ 6,398,152 | \$ - |
| Revolving Loan Fund, administered by the Grafton County Economic Development Corporation (GCEDC) - Payable in annual maximum installments of \$15,000 contingent upon excess cash flows as defined in the Revolving Loan Fund agreement. Noninterest bearing and unsecured. | 205,000 | 220,000 |
| Related parties - Unsecured agreements with multiple Littleton Consumer Cooperative members, payable in four annual installments commencing in February 2019, aggregating to approximately \$144,000, plus interest ranging from 0% to 4.5%, due through July 2022. Subordinated to notes payable to Mascoma, New Hampshire Community Loan Fund, and MCD. | 576,000 | - |
| Woodsville Guaranty Savings Bank - Payable in monthly installments of \$9,467, including interest at 3.25%. Paid in full in 2016. The note was secured by a mortgage on real estate and equipment. As of January 2, 2016, the outstanding balance of this note was net of \$53,660 of deferred financing costs, which were net of accumulated amortization of \$14,323. | - | 1,373,411 |
| Granite State Economic Development Corporation (GSEDC) - Payable in monthly installments of \$7,324, including interest at 2.72%. Paid in full in 2016. The note was secured by a second mortgage on real estate and a second interest on equipment and was guaranteed by the United States Small Business Administration. | <u>-</u> | <u>1,158,275</u> |
| Subtotal (forward) | <u>\$ 7,179,152</u> | <u>\$ 2,751,686</u> |

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND JANUARY 2, 2016

D) LONG-TERM DEBT (continued)

| | December 31, <u>2016</u> | January 2, <u>2016</u> |
|--|-----------------------------|---------------------------|
| Subtotal (forwarded) | \$ 7,179,152 | \$ 2,751,686 |
| Cooperative Fund of New England, Inc. (CFNE) - Balance is due under a revolving, \$150,000 line of credit with no fixed repayment terms. Interest was payable monthly at 5.5%. Paid in full in 2016. The note was secured by a first security interest in inventory and a second interest in certain assets. | - | 50,000 |
| Grafton County Economic Development Council (GCEDC) - Two notes payable in aggregate monthly installments of \$3,925, including interest at 5%. Paid in full in 2016. The notes were secured by a fourth mortgage on real estate and a third interest on equipment. | - | 53,118 |
| Associated Grocers of New England, Inc. (AG) – Three notes payable in aggregate weekly installments of \$474, including interest ranging from 1% to 2%. Paid in full in 2016. The notes were secured by equipment. | <u>-</u> | <u>25,516</u> |
| Total Littleton Consumer Cooperative | <u>7,179,152</u> | <u>2,880,320</u> |
| <i>Littleton Food Market</i> | | |
| Mascoma Savings Bank – Payable in monthly installments of \$18,624, including interest at 4.65%, with a final balloon payment of approximately \$2,716,000 due January 2024. Secured by a security interest in substantially all assets of Littleton Food Market. As of December 31, 2016, the outstanding balance of this note was net of \$54,964 of deferred financing costs, which were net of accumulated amortization of \$2,036. | <u>3,233,339</u> | <u>-</u> |
| Subtotal, Littleton Food Market (forward) | <u>\$ 3,233,339</u> | <u>\$ -</u> |

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND JANUARY 2, 2016

D) LONG-TERM DEBT (continued)

| | December 31, <u>2016</u> | January 2, <u>2016</u> |
|---|-----------------------------|---------------------------|
| Subtotal, Littleton Food Market (forwarded) | \$ 3,233,339 | \$ - |
| New Hampshire Community Loan Fund (NHCLF) – Payable in monthly installments of \$6,382, including interest at 5.90%, with a final balloon payment of approximately \$846,000 due January 2024. Secured by assignment of security interests in note receivable to Twain, Twain’s investment in MCD, and an unrelated party (investor in Twain). As of December 31, 2016, the outstanding balance of this note was net of \$35,920 of deferred financing costs, which were net of accumulated amortization of \$1,330. | <u>959,662</u> | <u>-</u> |
| Total Littleton Food Market | <u>4,193,001</u> | <u>-</u> |
| | 11,372,153 | 2,880,320 |
| Principal payments due within one year | <u>103,880</u> | <u>202,116</u> |
| | <u>\$ 11,268,273</u> | <u>\$ 2,678,204</u> |

Prior to the aforementioned refinancing of the GSEDC long-term debt, the Cooperative incurred 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. Fees charged to operations were approximately \$46,000 and \$22,700 during the periods ended December 31, 2016 and January 2, 2016, respectively.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND JANUARY 2, 2016

D) LONG-TERM DEBT (continued)

As of December 31, 2016, long-term debt matures as follows:

| Fiscal Periods Ending on or Around <u>December 31,</u> | <u>Amount</u> |
|---|----------------------------|
| 2017 | \$ 103,880 |
| 2018 | 109,892 |
| 2019 | 258,653 |
| 2020 | 263,656 |
| 2021 | 268,912 |
| Thereafter | <u>10,723,892</u> |
| | 11,728,885 |
| Deferred financing costs | <u>(356,732)</u> |
| | <u><u>\$11,372,153</u></u> |

E) INCOME TAXES

The provision for income taxes consists of the following for the periods ended:

| | <u>December 31,</u> <u>2016</u> | <u>January 2,</u> <u>2016</u> |
|---|------------------------------------|----------------------------------|
| Currently payable, net of tax benefit of net operating loss carryforward of \$59,000 in the period ending December 31, 2016 | \$ - | \$ - |
| Deferred | <u>30,300</u> | <u>104,000</u> |
| | <u>\$ 30,300</u> | <u>\$ 104,000</u> |

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND JANUARY 2, 2016

E) INCOME TAXES (continued)

Deferred tax assets and liabilities consist of the following at:

| | December 31, <u>2016</u> | January 2, <u>2016</u> |
|-------------------------------------|-----------------------------|---------------------------|
| Deferred tax assets: | | |
| Accrued expenses | \$ 25,100 | \$ 28,000 |
| Net operating loss carryforward | 117,500 | 176,500 |
| Other | <u>6,200</u> | <u>-</u> |
| | <u>\$ 148,800</u> | <u>\$ 205,300</u> |
| Deferred tax liabilities: | | |
| Depreciation | \$ 292,500 | \$ 318,700 |
| Accrued patronage refund receivable | <u>13,600</u> | <u>13,600</u> |
| | <u>\$ 306,100</u> | <u>\$ 332,300</u> |

The effective income tax rate in the fifty-two week period ended December 31, 2016 is lower than the expected statutory rate as taxable income is lower than applicable at statutory rates.

At December 31, 2016, the Cooperative has approximately \$345,600 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, 2013.

During the periods ended December 31, 2016 and January 2, 2016, the Cooperative recognized no interest or penalties related to unrecognized tax benefits.

F) MEMBERS' EQUITY

Littleton Consumer Cooperative

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.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND JANUARY 2, 2016

F) MEMBERS' EQUITY (continued)

Littleton Consumer Cooperative (continued)

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.

There were no patronage refunds declared for the periods ended December 31, 2016 and January 2, 2016.

Littleton Food Market

Littleton Food Market has authorized one class of membership interest. Income and loss from any fiscal year shall be generally allocated among members in proportion to their membership interest.

The Littleton Consumer Cooperative has entered into a put and call option agreement with NHBFA CDE, LLC (NHBFA), the holder of a 5% member equity interest in the Littleton Food Market, allowing NHBFA to put their interest in Littleton Food Market to the Littleton Consumer Cooperative at a price of approximately \$26,000. The put option period is for a six-week period beginning October 1, 2023 and ending on November 15, 2023. The Littleton Consumer Cooperative then has a call option for a period of sixty days following the expiration of the put option period. During the call option period, the Littleton Consumer Cooperative can call the investment in Littleton Food Market at a price equal to the fair market value of NHBFA's investment in the Littleton Food Market.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND JANUARY 2, 2016

G) 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 \$31,700 and \$28,700 during the periods ended December 31, 2016 and January 2, 2016.

H) MAJOR SUPPLIERS

During the period ended December 31, 2016, the Cooperative purchased approximately \$4,792,000 (71% of total purchases) of its goods from two unrelated parties and AG, a related party (see Note C). At December 31, 2016, amounts due to these suppliers, included in accounts payable, totalled approximately \$184,100.

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 C). At January 2, 2016, amounts due to these suppliers, included in accounts payable, totalled approximately \$110,500.

I) COMMITMENTS

In July 2016, Littleton Consumer Cooperative commenced renovations of its food store. In connection with these renovations, Littleton Consumer Cooperative entered into a construction contract of approximately \$2,600,000 and has remaining commitments under this contract of approximately \$1,088,000 at December 31, 2016. Littleton Consumer Cooperative entered into various other agreements related to these renovations with additional commitments totalling approximately \$191,000 for machinery and equipment and \$73,000 for services as of December 31, 2016.

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND JANUARY 2, 2016

J) RELATED-PARTY TRANSACTIONS

The Cooperative is a member of AG (see Note C). The Cooperative purchased goods and groceries from AG of approximately \$2,688,000 and \$2,697,000 during the periods ended December 31, 2016 and January 2, 2016. Amounts due to AG, included in accounts payable, were approximately \$57,000 at December 31, 2016 and \$53,000 at January 2, 2016. Patronage refunds due from AG, included in accounts receivable, were approximately \$40,000 and \$39,000 at December 31, 2016 and January 2, 2016.

The Cooperative has loans with members of \$576,000 and \$0 at December 31, 2016 and January 2, 2016, respectively (see Note D). Interest expense charged to operations for member loans was approximately \$18,000 and \$0 during the periods ended December 31, 2016 and January 2, 2016, respectively.

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 periods ended December 31, 2016 and January 2, 2016 were approximately \$328,500 and \$296,500, respectively. The discounts on these sales were included as reductions to gross sales in the consolidated statements of earnings and approximated \$49,000 and \$37,000 for the periods ended December 31, 2016 and January 2, 2016, respectively.

CONSOLIDATING SUPPLEMENTAL INFORMATION

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET

DECEMBER 31, 2016

ASSETS

| | Littleton Consumer Cooperative Society, Inc. | Littleton Food Market, LLC | Eliminations | Total |
|---|---|----------------------------------|---------------------|----------------------|
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | \$ 631,629 | \$ 44,477 | \$ - | \$ 676,106 |
| Restricted cash, current portion | 807,336 | | | 807,336 |
| Accounts receivable | 57,219 | - | - | 57,219 |
| Inventories | 472,343 | - | - | 472,343 |
| Prepaid expenses and other current assets | 23,716 | - | - | 23,716 |
| Deferred income taxes | 25,100 | - | - | 25,100 |
| Total current assets | <u>2,017,343</u> | <u>44,477</u> | <u>-</u> | <u>2,061,820</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 | 1,028,244 | - | - | 1,028,244 |
| | 3,975,382 | - | - | 3,975,382 |
| Less accumulated depreciation | 1,320,207 | - | - | 1,320,207 |
| | 2,655,175 | - | - | 2,655,175 |
| Construction in progress | 1,844,557 | - | - | 1,844,557 |
| | <u>4,499,732</u> | <u>-</u> | <u>-</u> | <u>4,499,732</u> |
| OTHER ASSETS | | | | |
| Restricted cash, less current portion | 2,052,035 | - | - | 2,052,035 |
| Note receivable | 2,000 | 4,720,800 | - | 4,722,800 |
| Investments in other cooperative associations | 223,766 | - | - | 223,766 |
| Investment in subsidiary | 418,298 | - | (418,298) | - |
| Due from related party | 122,700 | - | (122,700) | - |
| Other | 24,609 | - | - | 24,609 |
| | <u>2,843,408</u> | <u>4,720,800</u> | <u>(540,998)</u> | <u>7,023,210</u> |
| | <u>\$ 9,360,483</u> | <u>\$ 4,765,277</u> | <u>\$ (540,998)</u> | <u>\$ 13,584,762</u> |

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

CONSOLIDATING BALANCE SHEET

DECEMBER 31, 2016

LIABILITIES AND MEMBERS' EQUITY

| | Littleton Consumer Cooperative Society, Inc. | Littleton Food Market, LLC | Eliminations | Total |
|--|---|----------------------------------|---------------------|----------------------|
| CURRENT LIABILITIES | | | | |
| Current maturities of long-term debt | \$ 15,000 | \$ 88,880 | \$ - | \$ 103,880 |
| Accounts payable | | | | |
| Trade | 256,974 | - | - | 256,974 |
| Construction-related | 807,336 | - | - | 807,336 |
| Accrued expenses and other current liabilities | 203,673 | 11,206 | - | 214,879 |
| Patronage refunds payable | 12,142 | - | - | 12,142 |
| Total current liabilities | <u>1,295,125</u> | <u>100,086</u> | <u>-</u> | <u>1,395,211</u> |
| LONG-TERM DEBT, less current maturities | <u>7,164,152</u> | <u>4,104,121</u> | <u>-</u> | <u>11,268,273</u> |
| DUE TO RELATED PARTY | <u>-</u> | <u>122,700</u> | <u>(122,700)</u> | <u>-</u> |
| DEFERRED INCOME TAXES | <u>182,400</u> | <u>-</u> | <u>-</u> | <u>182,400</u> |
| MEMBERS' EQUITY | | | | |
| Capital stock | 369,525 | - | - | 369,525 |
| Donated capital | 2,340 | - | - | 2,340 |
| Retained earnings | 346,941 | - | - | 346,941 |
| Members' equity | <u>-</u> | <u>438,370</u> | <u>(438,370)</u> | <u>-</u> |
| | 718,806 | 438,370 | (438,370) | 718,806 |
| Noncontrolling interest in subsidiary | <u>-</u> | <u>-</u> | <u>20,072</u> | <u>20,072</u> |
| | <u>718,806</u> | <u>438,370</u> | <u>(418,298)</u> | <u>738,878</u> |
| | <u>\$ 9,360,483</u> | <u>\$ 4,765,277</u> | <u>\$ (540,998)</u> | <u>\$ 13,584,762</u> |

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF EARNINGS

FIFTY-TWO WEEK PERIOD ENDING DECEMBER 31, 2016

| | Littleton Consumer Cooperative Society, Inc. | Littleton Food Market, LLC | Eliminations | Total |
|--|---|----------------------------------|------------------|-------------------|
| NET SALES | \$ 10,104,458 | \$ - | \$ - | \$ 10,104,458 |
| COST OF SALES | <u>6,760,369</u> | <u>-</u> | <u>-</u> | <u>6,760,369</u> |
| GROSS PROFIT | 3,344,089 | - | - | 3,344,089 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | <u>3,031,563</u> | <u>-</u> | <u>-</u> | <u>3,031,563</u> |
| EARNINGS FROM OPERATIONS | <u>312,526</u> | <u>-</u> | <u>-</u> | <u>312,526</u> |
| OTHER (INCOME) EXPENSES | | | | |
| Loss from investment in subsidiary | 31,702 | - | (31,702) | - |
| Interest expense | 191,723 | 55,448 | - | 247,171 |
| Interest income | - | (22,078) | - | (22,078) |
| Patronage income | (35,925) | - | - | (35,925) |
| Other, net | <u>(6,363)</u> | <u>-</u> | <u>-</u> | <u>(6,363)</u> |
| | <u>181,137</u> | <u>33,370</u> | <u>(31,702)</u> | <u>182,805</u> |
| EARNINGS (LOSS) BEFORE INCOME TAXES | 131,389 | (33,370) | 31,702 | 129,721 |
| PROVISION FOR INCOME TAXES | <u>30,300</u> | <u>-</u> | <u>-</u> | <u>30,300</u> |
| NET EARNINGS (LOSS) | 101,089 | (33,370) | 31,702 | 99,421 |
| LESS: NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTEREST | <u>-</u> | <u>-</u> | <u>(1,668)</u> | <u>(1,668)</u> |
| NET EARNINGS ATTRIBUTABLE TO LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. | <u>\$ 101,089</u> | <u>\$ (33,370)</u> | <u>\$ 33,370</u> | <u>\$ 101,089</u> |

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF CASH FLOWS

FIFTY-TWO WEEK PERIOD ENDING DECEMBER 31, 2016

| | Littleton Consumer Cooperative Society, Inc. | Littleton Food Market, LLC | <u>Eliminations</u> | <u>Total</u> |
|---|---|----------------------------------|---------------------|-----------------------|
| INCREASE IN CASH AND CASH EQUIVALENTS | | | | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Net earnings | \$ 101,089 | \$ (33,370) | \$ 31,702 | \$ 99,421 |
| Noncash items included in net earnings: | | | | |
| Amortization expense of debt issuance costs included in interest expense | 61,132 | 3,366 | - | 64,498 |
| Depreciation expense | 144,070 | - | - | 144,070 |
| Patronage investments in cooperatives received | (16,118) | - | - | (16,118) |
| Deferred income taxes | 30,300 | - | - | 30,300 |
| Loss from investment in subsidiary | 31,702 | - | (31,702) | - |
| Changes in assets and liabilities: | | | | |
| Accounts receivable | (5,837) | - | - | (5,837) |
| Inventories | (26,815) | - | - | (26,815) |
| Prepaid expenses and other current assets | (11,491) | - | - | (11,491) |
| Other assets | (4,362) | - | - | (4,362) |
| Accounts payable | (16,013) | - | - | (16,013) |
| Accrued expenses and other current liabilities | 51,999 | 11,206 | - | 63,205 |
| | <u>238,567</u> | <u>14,572</u> | <u>(31,702)</u> | <u>221,437</u> |
| Net cash provided by operating activities | <u>339,656</u> | <u>(18,798)</u> | <u>-</u> | <u>320,858</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Capital expenditures | (1,749,482) | - | - | (1,749,482) |
| Restricted cash | (2,859,371) | - | - | (2,859,371) |
| Issuance of note receivable | (2,000) | (4,720,800) | - | (4,722,800) |
| Due to (from) related party | (122,700) | 122,700 | - | - |
| Investment in subsidiary | (450,000) | - | 450,000 | - |
| Purchases of investments in cooperatives | (4,199) | - | - | (4,199) |
| Net cash used in investing activities | <u>(5,187,752)</u> | <u>(4,598,100)</u> | <u>450,000</u> | <u>(9,335,852)</u> |
| Subtotal (forward) | \$ <u>(4,848,096)</u> | \$ <u>(4,616,898)</u> | \$ <u>450,000</u> | \$ <u>(9,014,994)</u> |

LITTLETON CONSUMER COOPERATIVE SOCIETY, INC. AND SUBSIDIARY

CONSOLIDATING STATEMENT OF CASH FLOWS

FIFTY-TWO WEEK PERIOD ENDING DECEMBER 31, 2016

| | Littleton Consumer Cooperative Society, Inc. | Littleton Food Market, LLC | <u>Eliminations</u> | <u>Total</u> |
|--|---|----------------------------------|---------------------|-------------------|
| Subtotal (forwarded) | \$ (4,848,096) | \$ (4,616,898) | \$ 450,000 | \$ (9,014,994) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Accounts payable - construction-related | 807,336 | - | - | 807,336 |
| Proceeds from long-term borrowings | 7,240,000 | 4,300,000 | - | 11,540,000 |
| Principal payments on long-term borrowings | (2,728,979) | (16,115) | - | (2,745,094) |
| Patronage refund liability paid | (487) | - | - | (487) |
| Deferred financing costs | (273,321) | (94,250) | - | (367,571) |
| Capital contribution | - | 471,740 | (450,000) | 21,740 |
| Proceeds from issuance of capital stock, net | 23,075 | - | - | 23,075 |
| Net cash provided by (used in) financing activities | <u>5,067,624</u> | <u>4,661,375</u> | <u>(450,000)</u> | <u>9,278,999</u> |
| Net increase in cash and cash equivalents | 219,528 | 44,477 | - | 264,005 |
| CASH AND CASH EQUIVALENTS, beginning of period | <u>412,101</u> | <u>-</u> | <u>-</u> | <u>412,101</u> |
| CASH AND CASH EQUIVALENTS, end of period | <u>\$ 631,629</u> | <u>\$ 44,477</u> | <u>\$ -</u> | <u>\$ 676,106</u> |
| <u>Supplemental Disclosures of Cash Flows Information</u> | | | | |
| Cash paid during the period for: | | | | |
| Interest expense | <u>\$ 118,547</u> | <u>\$ 52,082</u> | <u>\$ -</u> | <u>\$ 170,629</u> |
| Income taxes | <u>\$ 568</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 568</u> |